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Q4 2020

Sustainable Investing Quarterly Report

IMPORTANT INFORMATION

Reference in this document to specific securities should not be considered as a recommendation to buy or sell these securities, but is included for the purposes of illustration only. Views expressed may no longer be current and may have already been acted upon.

Fidelity INTERNATIONAL

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1 Public Policy & Regulatory Developments

1.1 Asia ex Japan

Building solid foundations: Fidelity International China Stewardship Report 2020

We published our inaugural China stewardship research in November. The report features a proprietary study of shareholder voting patterns across nearly 7,000 meetings and 40,000 company filings at Chinese A-share firms, plus on-the-ground evidence from Fidelity's onshore ESG engagements in China. It paints a clear picture of steady progress across-the-board when it comes to investment stewardship in China.

The paper consists of three main sections: 1) an overview of voting and engagement activities among investors in China including how these have evolved over the years; 2) selected China case studies that demonstrate the power of voting and engagement in protecting and potentially increasing the value of an investment; and finally 3) a question-and-answer guide to help investors navigate the complex maze of onshore shareholder voting.

To access the full paper as a PDF document, please click here.
To access the podcast on the report, please click here.

1.2 Japan

Japan policy development

On October 26, Prime Minister Yoshihide Suga announced in his first address in the Diet that Japan will aim to reduce overall greenhouse gas emissions to zero by 2050. The previous 2050 target was an 80% reduction. Energy-related policies include: (1) promotion of R&D and green investment to advance innovations such as next-generation solar cells and carbon recycling; (2) aim to significantly reduce energy use; (3) expand use of renewable energy to the maximum extent possible; (4) advance nuclear policy while prioritizing safety and; (5) a complete shift in long-standing policies regarding coal-fired power generation.

1.3 Europe

EU GHG reduction target and offshore renewable energy plan

During the quarter, the European Parliament voted in favour of raising the current EU 2030 greenhouse gas (GHG) emissions target from -40% to -60% compared to 1990 levels. This is more ambitious than the previously communicated European Commission's intention to raise the 2030 GHG target -40% to -55% (vs. 1990).

The new target is aimed to ensure the EU and all member states become carbon neutral by 2050. The Commission will propose a trajectory on how to reach carbon neutrality by 2050 in line with the Paris Agreement. Member states must also phase out all direct and indirect fossil fuel subsidies by 2025.

The European Parliament has also suggested to set up an EU Climate Change Council (ECCC) as an independent scientific body to assess whether policy is consistent and to monitor progress.

To help meet its climate neutrality goal, the European Commission published the EU Strategy on Offshore Renewable Energy. The Strategy proposes to increase Europe's offshore wind capacity from its current level of 12 GW to at least 60 GW by 2030 and to 300 GW by 2050, providing new opportunities for the renewables industry. The Commission aims to complement this with 40 GW of ocean energy and other emerging technologies such as floating wind and solar by 2050. The Commission estimates that investment of nearly €800 billion will be needed between now and 2050 to meet its proposed objectives.

2 Sustainable Investing Insights & Market advocacy

2.1 Fidelity International, a founding partner of the Net-Zero Asset Managers Initiative

Asset managers representing over $9 trillion of assets under management (AUM) today announced the launch of the Net Zero Asset Managers initiative. This is a leading group of global asset managers that commit to support the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C. They also commit to support investing aligned with net zero emissions by 2050 or sooner. Delivery of the commitment also includes prioritising the achievement of real economy emissions reductions within the sectors and companies in which the asset managers invest.

As part of the initiative, asset manager signatories have committed to:

- Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management;
- Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner; and
- Review their interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included.

The commitment in turn recognises

"an urgent need to accelerate the transition towards global net zero emissions and for asset managers to play our part to help deliver the goals of the Paris Agreement and ensure a just transition."

More information can be found here.

Drawn from across the world, the initial 30 Net Zero Asset Managers signatories are: a.s.r. Asset Management, Anaxis Asset Management, Arisaig Partners, Asset Management One, ATLAS Infrastructure Partners, AXA Investment Managers, BMO Global Asset Management2, Calvert Research and Management, CCLA Investment Management, Clean Energy Ventures, DWS, FAMA Investimentos, Fidelity International, Generation Investment Management LLP, Gulf International Bank Asset Management, Handelsbanken Fonder AB, IFM Investors, Inherent Group LP, Kempen Capital Management, Legal & General Investment Management, M&G plc, New Forests Pty Ltc, Nordea Asset Management, Robeco, Sarasin & Partners LLP, Schroders, Swedbank Robur, UBS Asset Management, Wellington Management and WHEB.

To fulfil the requirements established by the initiative, signatories have also made a further nine commitments, including:

- Set interim targets for 2030, for assets to be managed in line with the net zero goal, consistent with a fair share of the 50% global reduction in CO2 identified as a requirement in the Intergovernmental Panel on Climate Change (IPCC) special report on global warming of 1.5°C.
- Take account of portfolio Scope 1 and 2 emissions and, to the extent possible, material portfolio Scope 3 emissions;
- Implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with the ambition for all assets under management to achieve net zero emissions by 2050 or sooner; and
- As required, create investment products aligned with net zero emissions by 2050 and facilitating increased investment in climate solutions.

In demonstrating delivery against the Net Zero Asset Managers initiative commitment, signatories will also submit disclosures in line with the Task Force on Climate-related Disclosures recommendations and climate action plans through The Investor Agenda investor networks for review. This process will ensure the approach applied is based on a robust methodology, consistent with the United Nations Race to Zero criteria and that action is being taken in line with the commitment statement.

Building on strong global representation at launch, the initiative will continue to expand over the coming months. The initiative is also set to join the 'Race to Zero', the UNFCCC-led global campaign that brings together net zero commitments from a range of leading networks and initiatives across the climate action community.

2.2 Fidelity International launches climate-related financial disclosures report

Fidelity has launched its inaugural Task Force on Climate-related Financial Disclosures (TCFD) annual report. This follows Fidelity's commitment earlier this year to reduce its operational carbon emissions to net zero by 2040.

In the report, Fidelity has holistically gathered and published the relevant global climate-related information that will help stakeholders better understand Fidelity International's alignment with TCFD reporting, both as a corporate entity in our own right and as an investment manager.

The report is based on the 4 "pillars" of TCFD recommended disclosures, namely: Governance; Strategy; Risk Management and Metrics and Targets. It addresses the TCFD's 11 core climate-related disclosure recommendations for all companies with respect to Fidelity's own corporate operations, along with the additional five disclosure recommendations with respect to Fidelity's investment management process.

2.3 Three sustainable investing themes for 2021

Sustainable investing identifies themes that will grow in importance based on our needs as human beings. We need a stable climate to survive and, to achieve that and thrive, we need a more balanced society. That means narrowing social divides where possible, including ensuring equitable access to the internet as the world shifts online.

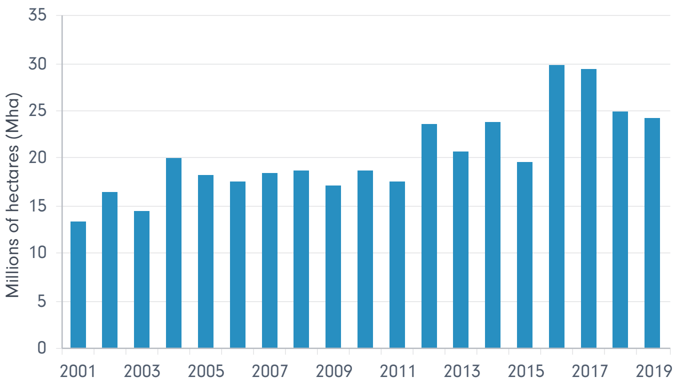
Below we examine how Fidelity International plans to engage with three of these crucial themes in 2021 and beyond: climate and natural capital, employee welfare and digital ethics.

1. Understanding nature-based risks as part of tackling climate change

Climate change is the critical issue of our time. Without the rapid reduction of carbon emissions, it will become increasingly difficult, if not impossible, to avoid catastrophic climate effects that radically alter our way of life. The financial impact alone will be immense. A report by the Carbon Disclosure Project and University College London estimates that if nothing is done to reduce emissions, the costs of climate-related damage will climb to €31 trillion per year by 2200[1]. But the impact on humanity will be so devastating by then that the cost will be irrelevant.

Fidelity International seeks to decarbonise in several ways. First as an asset manager through our proprietary sustainability ratings. We use these to identify companies exposed to climate risk, whether physically or from increased regulation. We then engage with those firms on managing that risk and reducing direct and indirect emissions. Second, we participate in global programmes such as the Climate 100+ initiative that pushes large emitters towards more sustainable business models. And third, we have set our own corporate target to achieve net zero carbon emissions across the company by 2040. We also recently committed to the Net Zero Asset Manager initiative, which supports investing that is aligned with net zero emissions by or before 2050.

Chart 1: Global tree cover loss globally
(Total for period: 386Mha = 9.7% decrease and 105 Gt of CO2 emissions)



Source: Global Forest Watch, 2019.

In 2021, we will increase our efforts to understand the risks posed by the loss of natural capital. The Covid-19 pandemic may have been triggered by human expansion into natural habitats, which brings home the impact of nature loss on us. Half of the world's GDP (c. $44 trillion) is "moderately or highly linked" to the availability of natural capital, according to the World Economic Forum; so any loss is environmentally and financially damaging. Moreover, the potential negative feedback loops between climate change and nature loss (for example, via deforestation) make the erosion of natural capital a systemic risk for investors and society alike.

Better data and more policy action

Calculating and then pricing greenhouse gas (GHG) emissions still presents challenges, but the quality and availability of information are improving steadily. We expect the same effort and innovation around GHG emissions will go into valuing natural capital and biodiversity in the coming years. Two areas will drive this: data collection and government policy.

Measuring biodiversity may be more complex than counting carbon emissions, but 'big data' makes it possible to assess multiple inputs. We expect risk disclosure frameworks similar to the Taskforce for Climate-related Financial Disclosure (TCFD) to emerge for natural capital. Fidelity recently published its own TCFD report and encourages investee companies to do so, as well as to disclose nature-based risks wherever possible. This has included working with confectionery companies on their use of palm oil grown in South East Asia and joining a coalition of financial institutions in Europe to call on investee companies to reduce deforestation that occurs along their supply chains.

Companies will find it increasingly difficult to avoid these kinds of obligations. Environmental policy is gathering pace, from the EU's Green Deal to the US re-joining the Paris Agreement, and to China, Japan and South Korea announcing net zero targets. The latter developments highlight the growing role that Asia will play in setting the climate agenda as international ambitions mount ahead of a crucial UN climate change summit in late 2021.

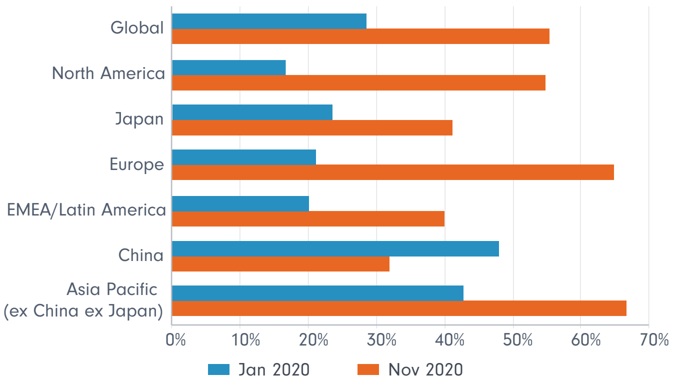
2. Looking after employees, supply chains and communities

Employee welfare has taken on a new importance in the wake of the Covid-19 outbreak, with many companies seeking to protect their workers and preserve their businesses. Our November Analyst Survey reflected this trend, showing a big increase (compared with January 2020) in the number of analysts reporting that employee welfare was a high priority for companies.

In 2021, there will be more pressure on companies to take greater accountability not only for the welfare of their workforce, but for the community at large, and for the individuals in their (often) complex supply chains. This is driven in part by the severe effect that the pandemic has had on people's livelihoods. Only a fifth of the global workforce of 3.3 billion has been unaffected by full or partial workplace closures as a result of Covid-19, according to the International Labour Organisation.[2]

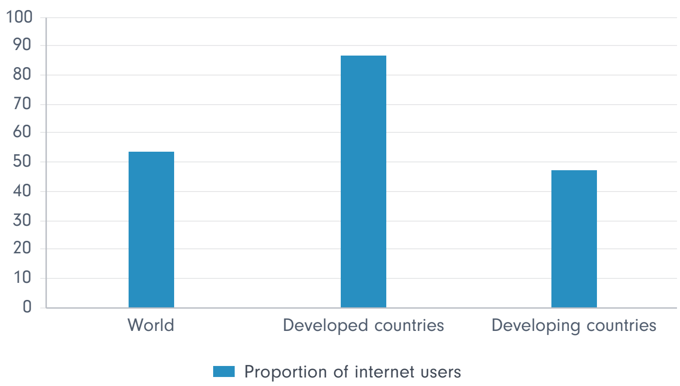
[1] Source: [Costing the Earth - Climate Damage Costs and GDP]

Chart 2: Employee welfare grows in importance



Source: Analysts asked to rank a list of 7 priorities for their companies from 1 (most important) to 7 (least important). High priority ranked as 1 to 3. Source: Fidelity International, November 2020.

Chart 3: The digital divide between developed and developing countries



Source: International Telecommunication Union, 2020.

Some have been affected more than others. Women, for example, have lost more of their income than men. For every 100 men aged 25 to 34 living in extreme poverty in 2021, there will be 118 women, according to UN Women, and 121 women by 2030 if nothing is done. So we will be looking to companies to make genuine efforts to support their female workforce.

Workers in certain sectors have faced particular problems. In 2020, Fidelity raised awareness of 400,000 seafarers stuck at sea, unable to disembark at major ports after restrictions were imposed by national authorities in response to the pandemic. Fidelity wrote to over 30 companies in the shipping and charter sectors and has invited other investors to co-sign a letter to the UN calling for urgent action to address the situation.

Finally, supply chain management was a key theme in 2020, and in 2021 we plan further engagement on the auditing of suppliers for poor or criminal practices. In 2020, Fidelity became a founding member of Investors Against Slavery and Trafficking Asia-Pacific (IAST APAC), a newly-formed coalition that aims to prevent modern slavery and address human trafficking risks.

3. Redefining ethics for a digital world

Digital tools have become a lifeline for many during the pandemic, but they have also exacerbated economic inequality. Around half of the global population has no internet access, according to estimates from the International Telecommunications Union, with much lower levels typically in developing nations.

In rural and remote areas, an even greater proportion do not have broadband or a way to use online government services. This creates a divide between those that can access digital opportunities and those that can't, even within individual countries. For example, 82 per cent of UK job vacancies advertised online require digital skills, according to the UK government.[3] It is therefore incumbent upon policymakers, companies and investors to make digital accessibility a priority in 2021 and beyond.

Fidelity recently supported the launch of the World Benchmarking Alliance's (WBA) inaugural Digital Inclusion Benchmark (DIB). The benchmark is the first of its kind to rank and score the 100 most influential global tech companies on their contribution to digital inclusion. Fidelity has committed to leading a collaborative engagement with investee companies alongside our WBA partners.

Other areas of digital ethics could affect the near-term valuations and long-term sustainability of technology companies. In 2021, we will monitor those we believe to be the most crucial: data privacy, misinformation, online fraud, online welfare and ethical AI design. Regulatory action so far has centred around the first three, but we believe welfare and design will become increasingly important.

The power of engagement

All of the themes above could be summed up as good corporate governance. As part of their broader governance responsibilities, companies will have to consider how best to recover from the effects of the pandemic in a sustainable way. Otherwise they may struggle to stay in business over the longer term. Companies with strong ESG characteristics outperformed in 2020 and should continue in future to attract more investor capital than those with lower ESG scores.

To improve the sustainability of investee companies, Fidelity will engage on our core themes for 2021 and those raised by our analysts. Much of the power of our engagement comes from our analysts and portfolio managers talking to companies on a regular basis about specific issues they need to address, rather than simply excluding them from portfolios. This is especially true in sectors and regions where environmental, social, governance and digital developments have been slower and asset managers have an even greater responsibility to push firms to act appropriately to create long-term value.

[2] Source: ILO https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_740893/lang--en/index.htm

[3] Source: UK government report, 2019: No longer optional: employer demand for digital skills

2.4 Insurance companies neglect sustainability at their peril

Insurance is among the sectors most exposed to Covid-19 due to liabilities from virus-related claims. The pandemic's impact on the sector has shown the importance of considering what new catastrophes might emerge in future, and drawn attention to how underwriters manage sustainability risks. But insurance is not only about managing risks from claims, it is also about scrutinising investment-related risks.

Fidelity International's research team spent four months analysing the sustainability credentials of insurance company portfolios. We found that there was a spectrum of attitudes towards sustainability, leaving some companies more exposed to ESG risks than others. We incorporated our findings into our in-house sustainability ratings criteria, with longer-term implications for insurers who continue to neglect sustainability issues.

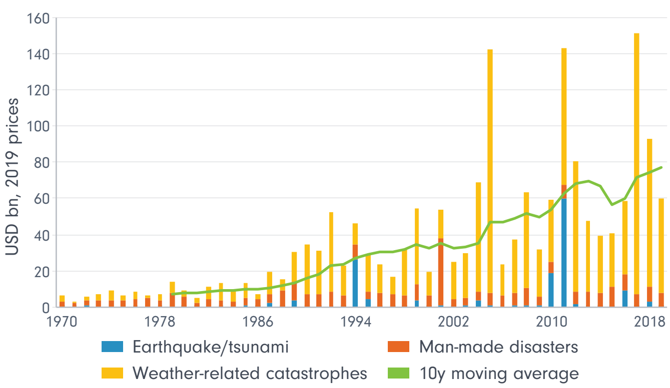
Adapting to ESG risks

There is an implicit social contract between the insurance sector and its customers, with the latter dependent on insurance companies for sharing the burden when unexpected events occur. The Covid-19 crisis has only served to reinforce this contract, emphasising insurers' societal responsibility and that of the companies in which they invest.

It has demonstrated how vital sustainability considerations are to the insurance sector and should accelerate the transition from being shareholder-focused to encompassing a broader range of stakeholders. It should also help insurers adapt to other ESG risks that can cause widespread disruption to business activity and communities.

The industry is already on the front line when it comes to environmental concerns. It is responsible for underwriting natural disasters, which are growing in magnitude, frequency and unpredictability amid man-made climate change. There could come a day when these catastrophes become uninsurable for the private sector.

Chart 4: Catastrophe-related insured losses are rising over the long term



Source: Swiss Re, 2020.

Sustainability risks in relation to future claims have been under the spotlight for a while. But we have chosen to focus this study on the less covered - but equally critical - sustainability risks that relate to the asset side of the insurance business, where insurance companies park capital until it is needed for paying out claims.

If insurers do not carefully supervise their portfolios, they could be taking risks that compromise their ability to meet liabilities, potentially risking insolvency. Stringent regulatory restrictions on the types of assets insurers can invest in make their portfolio management decisions even more essential, and choices around sustainability are a core ingredient of that task.

Risk managing the risk managers: Assessing investment, underwriting and regulatory risk

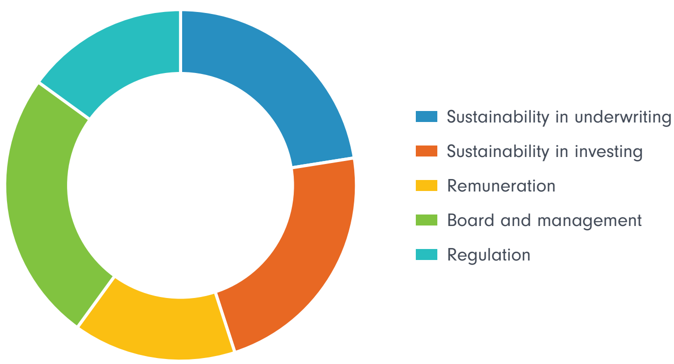
To carry out our research into sustainability risks for insurers' portfolios, we spent four months engaging with 11 companies. These included re-insurers, diversified insurers and life assurance providers. Some of them were household names and others were niche operators, ranging from small to large market capitalisations.

We spoke to numerous executives and had countless internal debates to evaluate how the industry is integrating sustainability factors into its asset allocation process. We looked at a variety of factors including sustainable investment strategy, team structure, executive responsibility, remuneration linked to sustainability outcomes, voting and engagement policies, reporting and participation in external standards.

Sustainability has a direct impact on future proofing an insurance company's balance sheet against a variety of potentially existential events, including regulatory crackdowns, underwriting challenges and investment risks. Regulation is already acting as a push factor driving sustainability up the agenda for insurance companies. With the first ever ESG guide specifically targeted towards the global insurance industry published by the UN Environmental Programme (UNEP) in December 2019, adopting a long-term approach to climate-related risk is an urgent priority.

Underwriting and investment require insurers to properly assess the costs of events and the outcome of investments, to ensure cash flows match pay-outs in both timing and size. Sustainability factors introduce an extra complication that requires experienced practitioners to be fully aware of and manage risks as they evolve.

Chart 5: Sustainability forms nearly half of our weighting in insurance analysis



Fidelity International, September 2020. Subject to change.

Key findings

Attitude to sustainability is key

Market cap and the level of sustainability do not correlate strongly in this study. It is reasonable to expect that a company with greater resources is able to invest more in hiring talent and developing systems and processes for collecting, analysing and monitoring data. But we found that if the will was there, insurers could develop a forward-thinking ESG strategy, irrespective of size.

The companies with the most commitment to sustainability were also the most ambitious. One company employs 40 responsible investing officers with 20 per cent of their compensation explicitly linked to ESG outcomes. Other insurers have shown a remarkable level of consideration for the effects of Covid-19 on customers. For example, some motor insurers have offered refunds to customers to offset less driving through the crisis, although these companies were not obliged to do so.

Scenario analysis is proving to be an effective tool for many insurers. Mapping the pathway of different increases in world temperature is a commonly used technique to help frame the risks of global warming. One insurer commissioned a team of economists to develop a value-at-risk (VaR) measure of their portfolio to climate change.

We found that companies that embrace sustainability challenges are more likely to share knowledge and collaborate on projects with rivals because they recognise that players across the sector face common hurdles and combining expertise is mutually beneficial. Some companies even invited us to join working groups designed to deal with sustainability risks.

No standardised sustainability approach

Companies use a variety of approaches to integrate ESG, from exclusion lists to best-in-class selection, from norms-based to thematic investing. In some companies, responsibility for sustainability sits with the chief investment officer (CIO), while for others it is outsourced to third parties. Some insurers are actively engaging with investee companies in their portfolios while others have set up dedicated impact funds.

This shows is that there is no universally agreed approach to sustainability in the insurance industry and different measures suit different companies. The important thing is for insurers to be consistent with their wider function in society. For example, one healthcare insurer decided to exclude tobacco investments from its portfolio to better align with its fundamental corporate purpose.

As investors, we have to adapt to this non-standardised range of approaches and critically evaluate each sustainability solution in the context of the specific business model and social function. There should be distinct ESG approaches across asset classes because the challenges are not always the same.

The 'S' needs work on both the investment and underwriting sides

We found insurers generally had a high level of sophistication around environmental issues, particularly catastrophe-exposed companies. But the social aspect tended to receive less attention. The effects of Covid-19 sit squarely in the social box, and the outbreak is a timely reminder that insurers cannot neglect this aspect.

The crisis has brought attention to insurance policy wording that is often ambiguous about how business interruption and losses related to event cancellations are dealt with. Some underwriters have been quick to clarify the coverage of policies, often to limit future exposure. But customers now have more awareness of the devastation a virus can cause, and a longer-term consequence of Covid-19 may be that more resources are directed towards dealing with pandemics.

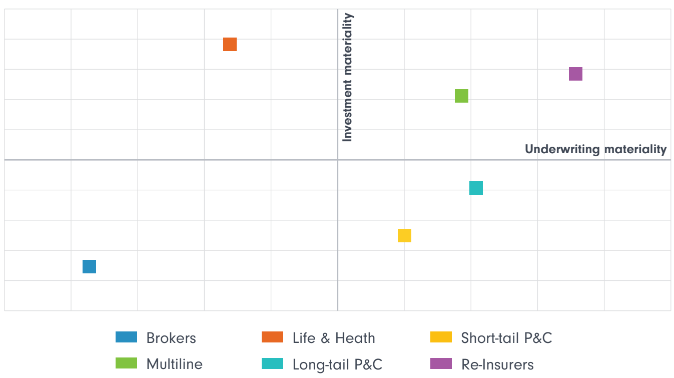
In the US, the emerging opioid crisis could unleash a wave of claims on certain healthcare companies. Insurance companies should be factoring this into their portfolio management (as well as underwriting). For us as analysts, we need to pay particular attention to the social risks contained in insurance company investment portfolios, as well as their liabilities.

Leaders, followers and laggards

Different sub-sectors of the insurance industry have varying levels of sustainability exposure related to investment and underwriting risk. For example, life insurance companies are highly exposed to investment risk because of the need to purchase long duration assets to match the long-term nature of their liabilities, so integrating sustainability factors on the asset side is crucial for these insurers.

Re-insurers have high exposure to underwriting risk because they often insure major claims related to unpredictable events and therefore a well-developed sustainability framework for underwriting is particularly useful for these firms. While bearing these factors in mind, it is possible to map the materiality of different risks to different sub-sectors and compare a company's level of sustainability to that of its peers.

Chart 6: Spectrum of sub-sectors' relative exposure to ESG risks



Source: Fidelity International, 2020.

Overall, we were pleasantly surprised to find that most insurance companies are treating sustainability with considerable seriousness, but the key factor is the pace of development. We separated the companies into three categories: leaders, followers and laggards.

The leaders we identified were creative and industrious in their approach, and discussions with them took a tone of knowledge sharing, partnership and learning opportunities for both parties. We have taken these learnings and incorporated them into our criteria for assessing ESG ratings. We also shared our sustainable ratings methodology to help them understand materiality from the investors' point of view.

The followers are on track with developing ESG integration and have clear next steps. The laggards have much further to go. Some of these companies were particularly disappointing given the considerable resources at their disposal; this was usually because of low engagement with sustainability. Other laggards demonstrated a genuine willingness to work with us on an ongoing basis to better integrate ESG into their business models.

Key areas of sustainability to watch for insurers

We expect the insurance industry as a whole to make significant progress on sustainability in the coming months and years. Key areas to watch in order to assess the speed and ambition of this progress are:

- Responsibilities: Increase in top-down commitment to implement sustainable investing policies, and ideally ESG committees at board level
- Resources: More personnel in standalone ESG teams, but also empowered sustainability champions across different business units
- Products: An increase in green bond and social bond issuance - insurers tend to prefer capital raising in the fixed income markets. A general rise in investment in ESG focused/labelled products, either developed in-house or from third-party managers
- Disclosure: Greater transparency around voting and engagement actions in investments, and more detailed disclosure on specific asset classes
- Policy: Policies are currently mainly exclusion-based around coal and other oil and gas activities. Those companies not yet signed up to the UN PRI (Principles of Responsible Investment) will face pressure to become members. We also expect more formalised approaches across different asset classes to signal awareness that ESG considerations should be tailored to specific markets.

We intend to launch a second round of engagements, checking to see how companies have progressed compared to their targets. We also plan to broaden the scope of this research project following emerging sustainability issues hastened by Covid-19. These include risks to infrastructure for running businesses remotely, digital customer offerings, cyber security, employee welfare, customer and supplier engagement and understanding how the pandemic will inform executive remuneration.

Applying the findings to stock picking

By analysing how an insurance company manages sustainability, we can develop a greater understanding of how it manages risk as whole. As a result of the project, we changed the sustainability rating of some companies and evolved the criteria we use to assess ratings across the sector.

For example, we are placing greater emphasis on who or what is responsible for driving the sustainability policy at an insurance company. We found this to be a significant differentiator for ESG integration. How the company articulates its role as a long-term steward of capital makes a difference to sustainability outcomes. Where there is little interest in managing sustainability risks, we expect this to have longer-term implications for a company's ability to attract investor capital.

In terms of an insurer's portfolio management, we seek to understand where sustainability enters the investment process and whether it is seen as a risk mitigator or alpha generator. The level of engagement an insurer applies to its investee companies is another good barometer of ESG sophistication. That said, stock selection is a complex process, and sustainability is one part of an intricate puzzle.

The right strategy treats sustainability as a dynamic area, enriched by continual enhancement. That is why we are incorporating the findings of this project into our own sustainability ratings and launching another round of engagement. What we learn informs those companies we engage with and vice versa, working together to manage sustainability risks around claim liabilities and to the asset side of the business on behalf of their clients and ours.

2.5 Putting sustainability to the test: ESG outperformance amid volatility

The securities of companies with better Fidelity International sustainability ratings have outperformed those with poorer ratings, so far this year.

The first nine months of 2020 were characterised by the Covid-19 crisis, which produced whipsawing markets, big changes in monetary and fiscal policy, and a uniquely austere economic outlook.

In this period, stocks assigned the top Fidelity International rating (A) for sustainability outperformed the MSCI AC World index. A linear relationship, with A-rated stocks and bonds outperforming the Bs, who fared better than Cs, and so on down to E was also observed across the nine-month time frame.

Stocks at the top of our ESG rating scale (A and B) also outperformed those with weaker ratings (D and E) in every month from January to September, apart from April.

Overall, we're pleased to observe the relationship between high ESG ratings and returns over the course of a market collapse and recovery, supporting the view that a company's focus on sustainability is fundamentally indicative of its board and management quality and its resilience.

To access the full research, please click here.

2.6 China takes aim at trash

Decades of rapid urbanisation in China helped lift hundreds of millions of people out of poverty but also brought heavy environmental costs like overflowing landfills. Now, a massive nationwide effort is underway to improve waste management systems.

The Jiangcungou landfill in the northwestern Chinese city of Xi'an was once the biggest dumpsite in China. Built in 1994 and spanning the size of 100 football fields, it was designed to last 50 years. Instead, it filled up in 2019 - 25 years ahead of schedule. Rising incomes and rapid urbanisation has led to a similar trend playing out across the country, sounding the alarm for policymakers, companies and citizens to play their part in improving waste management.

"As Chinese people became wealthier and moved from the countryside to the city, they started with getting food deliveries, then more clothes, and eventually changing shoes several times a year."

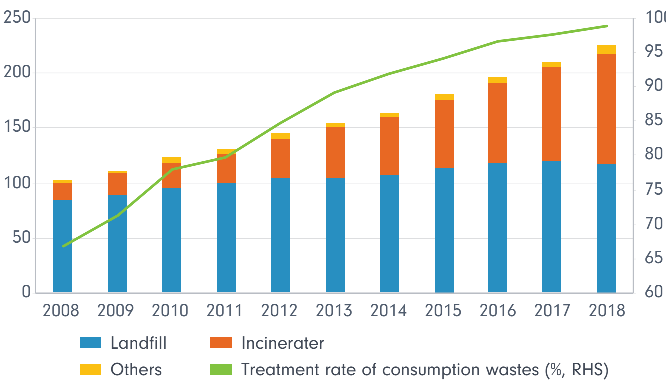
"Getting richer led to a multiplication of the resources consumed."

Bertrand Lecourt, Portfolio Manager.

China's total volumes of municipal solid waste more than doubled during 2008-2018, and as landfills reach their limits, more of this waste is going to incinerators and other means of treatment that are less intensive in land use. While the number of traditional landfills grew about 5 per cent each year during the decade through 2018, incineration plants where waste can be turned into heat or electricity increased by 16 per cent per annum. These produce less pollution and convert trash into a resource, whereas landfills can leak into the water systems.

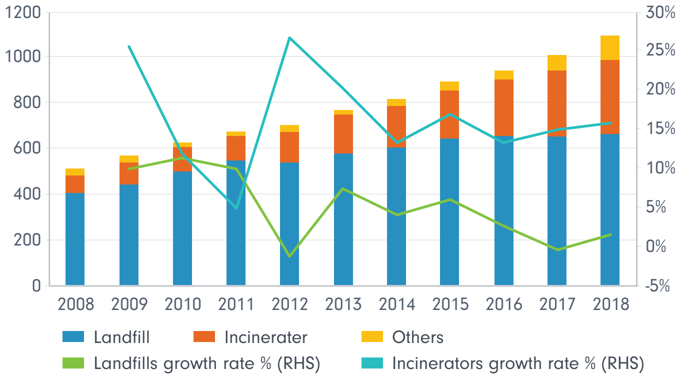
But incinerators are also straining under the growing loads of waste, and policymakers all the way up to President Xi Jinping are putting a heavier emphasis on recycling. It's not a fleeting goal: in the blueprint for the country's upcoming 14th five-year-plan, which will be tabled in March, China reiterated the need for waste sorting and recycling regulations, and waste reduction efforts, as well as improving waste treatment in rural areas as a way to improve living conditions.

Chart 7: Volume of waste disposed in major cities (Million tons)



Source: National Bureau of Statistics. Fidelity International, November 2020.

Chart 8: Number of facilities for waste treatment in major cities



Source: National Bureau of Statistics. Fidelity International, November 2020.

Recycle or pay fines

Nationwide, the government has mandated a target for 2020 that 46 major cities recycle 35 per cent of their waste, in line with levels in the US. Shanghai, the world's most populous city with 24 million residents, was the first to pilot the widescale recycling program in July 2019.

Shanghai residents are now sorting their waste into 4 categories: wet waste such as biodegradable food; recyclable waste (glass, paper, plastic and reusable clothes or toys); hazardous waste like batteries and expired medicines; and residual waste (everything else).

The project was first met with scepticism according to local media such as Xinhua, as the strict sorting scheme was found to be complicated and confusing, and previous initiatives over the past two decades failed to amass wide support.

But policymakers later raised the stakes: individuals and businesses now face hefty fines for noncompliance, ranging from 500 renminbi to 100,000 renminbi ($75 to $15,000) for companies. A large portion of the fines have been paid by office building management companies, construction sites and trash transportation companies. Individuals face a more modest penalty of 200 renminbi. But they could also see their social credit scores penalised, which potentially affects their access to education, job opportunities, and even travel.

In response to initial confusion over how to classify waste, companies like Tencent and Alipay developed educational apps, such as this game titled "Garbage Sorting". In some places, people can earn points which they can use for shopping, or even cash payments for dropping off certain goods.

Screen grab from Garbage Sorting game

Source: JY International Cultural Communications, jggame.net, Fidelity International, November 2020.

This combination of sticks and carrots appears to have worked, with Shanghai mayor Ying Yong calling the program a success at the beginning of this year. Over 90 per cent of Shanghai's housing communities are now using this new sorting system, versus 15 per cent at the end of 2018. Meanwhile, the proportion of waste going to landfills fell from 41 per cent to 20 percent.

Following the initial momentum in Shanghai, this program has expanded quickly into other major cities and is on track to meeting the 46-city target by year-end. But it will need to be further fast-tracked if it is to span all Chinese cities, around 300 of them, by 2025.

Fast-growing investment universe

China's waste management industry is still playing catch up with economic growth, so it should expand at a faster rate than the overall economy in the next 5 to 10 years. Selective investment opportunities abound, as private companies have sprung up in various parts of the supply chain.

In the downstream area (waste treatment and incineration), the biggest player is China Everbright International (CEI), a state-owned entity that's been listed for nearly 30 years. Given the asset heavy nature of its business model, its size and pedigree provide an edge - around one-third of the waste incineration projects tendered each year are awarded to CEI.

Its key challenge is around government subsidies. It receives subsidies from the same government fund as renewable energies like solar and wind power, but that fund has been in deficit due to fast expansion across the board. As a result, some of CEI's subsidies and projects have been delayed, so we see scope for reform in this area.

Higher up the value chain are the municipal hygiene service companies - agents who collect, sort and transfer the waste to the downstream plants. Those companies are more labour-intensive and asset light. Their fees are not subsidized by the central government but paid by local governments over a fixed contract term of 3 to 8 years, so their cash collection is more reliable than for downstream companies.

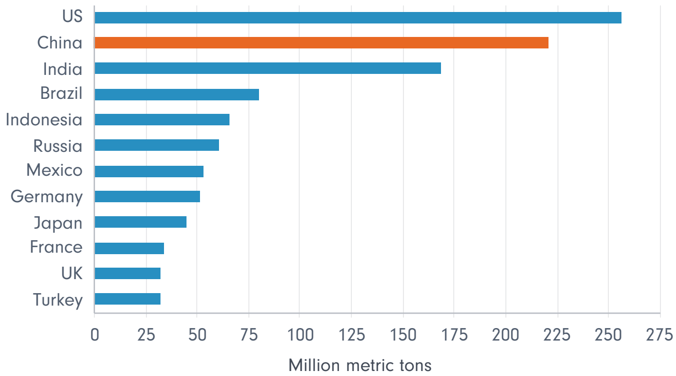
In this space, government agencies are taking a step back and the goal is for private companies to rise from a 50 per cent market share to as high as 80 to 90 per cent in the next 5 years. This should lead to 20 per cent compound annual topline growth for private companies, despite a mid-single digit growth in waste disposal volumes.

While things are moving in the right direction, China's waste management industry is still in its nascency. The electronic waste market is one such fledgling area, and fast-growing startups like AiHuiShou (which means "love recycling") aim to fill this void. Recently renamed "All Things Renew", the 9-year-old company's services include "one-stop trade-in" where customers can trade in used phones and pay the difference when buying a new mobile device online. The company has over 700 offline stores and recently reached [$2 billion in monthly transactions].

More to be done

Despite the greater awareness around reusing and recycling, from an environmental standpoint, more needs to be done. China's growing urbanization and consumption are putting ever-greater strains on the earth. And China is not alone. The world's waste is set to grow more than twice as fast as the global population in the run-up to 2050, according to the [World Bank].

Chart 9: Generation of municipal solid waste in 2017, top 12 countries



Source: World Bank, Statista, Fidelity International, November 2020.

Success will be aided by the three Rs: reduce, reuse and recycle. In China, the government has introduced new guidelines to reduce food waste, including limits on how much people can order at restaurants, and curb solid and plastic waste with bans on hotels providing disposable toiletries unless specifically requested. That focus on the first R is perhaps a sign of the times - amid the global pandemic, people around the world are reassessing their views on consumption and capitalism. For China, it's a historic opportunity to lead the way.

2.7 Slashing emissions will fuel green growth for decades

The world needs to slash carbon emissions to avoid the worst effects of climate change. Easy to say, hard to do. It means reversing over 150 years of rising greenhouse gas emissions and reaching, or exceeding, net zero targets within 30 years.

And it costs around $144 trillion to achieve, almost seven times annual US GDP.[4] But the urgent need to decarbonise offers companies producing renewable energy and other low carbon technologies the potential for decades of growth.

Around 37 billion tonnes of greenhouse gasses were emitted in 2019. Then came Covid-19 and global lockdowns which saw factories shutter, aircraft grounded and populations confined to their homes. But even the most draconian restrictions on human mobility in modern times only led to an 8-9 per cent decrease in global CO2 emissions in the first half of 2020 compared to the same period in 2019. And the effect will be temporary.

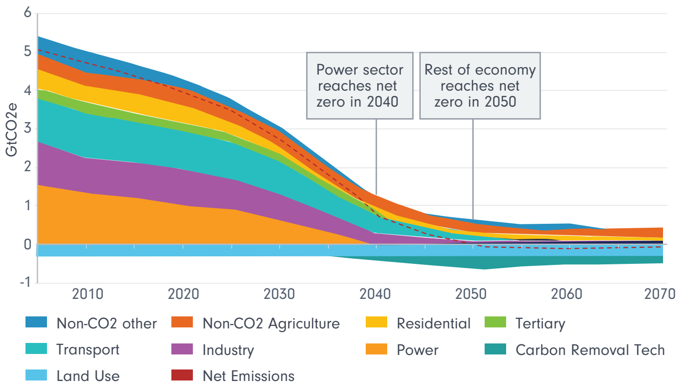
[4] Source: Carbonomics, Goldman Sachs, October 2020.

Making a start

Unfortunately, there is no silver bullet that offers a 100 per cent decrease overnight. But there are steps we can take today such as replacing coal-fired power and oil-based transport with the best low-carbon solutions available. Installing wind turbines cuts emissions by 93 per cent (compared to fossil fuel plants).[5] Switching to electric vehicles will more than halve (cradle to grave) emissions from cars, while green hydrogen fuel cells can decarbonise heavy-duty trucks by 87 per cent. The meatless burger reduces emissions by 90 per cent and lab-grown meat by 78 per cent. Insulation alone can halve the emissions associated with buildings.[6]

Many technologies, like wind and solar, are economic without subsidies. Others require significant amounts of public and private capital to rival cheaper, carbon-heavy technologies. All areas need to be scaled up aggressively to meet decarbonisation targets set by the Paris Agreement. So even if valuations look expensive today among wind and solar companies, we believe long-term growth expectations for many will prove more than justified. Companies with no competitive advantage, like some electric vehicle firms, however, appear overpriced.

Chart 10: Multiple areas will need to be decarbonised to get to net zero
European Union net zero 2050 pathway



Source: EU Commission 1.5 degree scenario estimates, Bernstein Analysis.
Note: 'Non-CO2' refers to other emissions such as methane.

Carbon prices will rise

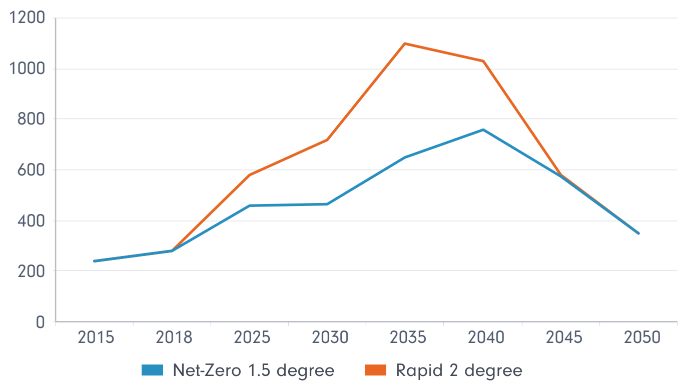
Carbon cap-and-trade systems have proved controversial in the past because of carbon 'leakage'. This occurs when a carbon price is applied and increases the cost of domestic goods, incentivising a switch to cheaper imports from countries with no carbon price. Despite this risk, deeper, broader carbon markets are on the horizon and as more countries adopt them, the more effective they will become. This could further boost companies in green sectors as 'brown' alternatives become more expensive. The World Bank estimates that carbon prices have to be 2-4 times higher than their current level and 2.5-5 times higher by 2030 to achieve the emissions reduction goals of the Paris Agreement.

As part of its pledge to achieve carbon neutrality, China is set to roll out a national cap-and-trade CO2 scheme that's been running as a pilot since 2014. Its impact has been limited so far due to a low carbon price ($3-4/ton in 2019) but this should change as prices rise. Moreover, a nationwide scheme in China could include sectors that account for an estimated 20 per cent of global emissions by 2030, creating the potential for large-scale decarbonisation. The US may follow with its own scheme under President-Elect Biden. The EU cap-and-trade programme currently covers emissions from power stations and other industrial plants, but could be extended to other sectors. To deal with carbon leakage, a carbon border adjustment mechanism that would force importers to pay for their emissions has been proposed as part of the European Green Deal.

De-carbonisation at scale creates significant opportunities

Existing low-carbon technologies could benefit most from the investment needed to achieve the first 50 per cent of decarbonisation - $1 trillion a year according to Goldman Sachs. These include renewables, industrial and agricultural automation, efficient buildings, the cloud (which has a 50 to 80 per cent lower carbon footprint than onsite data centres[7]), alternatives to meat and milk, lightweight materials and second-hand goods platforms. Once current technologies have been fully adopted, a further investment of around $3.8 trillion[8] a year in new solutions is needed to close the gap. Some, like green hydrogen and carbon capture, are still in the early stages of development today; others have yet to be invented. Many will need renewable power.

Chart 11: Investments in renewable energy could be significant over the coming decades
Average annual investments in wind and solar combined from 2018 ($bn)



Source: BP estimates, Bernstein analysis.

The average annual investment for solar and wind alone will top $400bn a year (on a 1.5˚-2˚ pathway) for decades. And if solar and wind, backed up by battery and green hydrogen storage, replace all present-day thermal generation, meet rising demand from a growing population and emerging middle class, and power the global electric car fleet, demand for these will rise to roughly 17 times current levels.

[5] Source: FIL estimates using Siemens/Vestas data

[6] Source: Tesla impact report 2019 and VW: https://www.volkswagen-newsroom.com/en/stories/co2-neutral-id3-just-like-that-5523; Carbon Brief https://www.carbonbrief.org/factcheck-how-electric-vehicles-help-to-tackle-climate-change and EPA: https://www.epa.gov/greenvehicles/greenhouse-gas-emissions-typical-passenger-vehicle; "Life-Cycle Implications of Hydrogen Fuel Cell Electric Vehicle Technology for Medium and heavy trucks" by Lee, Elgowainy and Kotz, 2018; Meatless burger and Beyond Meat burger: https://quantis-intl.com/heres-how-the-footprint-of-the-plant-based-impossible-burger-compares-to-beef/; Beyond Burger Life Cycle Assessment, September 2018.

[7] Source: Microsoft Cloud Carbon Study 2018.

[8] Source: Goldman Sachs, October 2020. This estimated cost of decarbonisation prices emerging technologies such as green hydrogen at their current rates, but as they are more widely adopted, costs should fall.

That is before accounting for electrifying heating in people's homes or manufacturing green hydrogen to replace natural gas, and reducing emissions in hard-to-mitigate sectors such as steel, cement, and ammonia. Once these are included, the prospective demand for solar and wind rises to more than 25 times current levels.

Hydrogen has had several false starts. But as the cost of renewables continues to decline and green hydrogen starts to be produced at scale, it could reduce those carbon emissions previously thought impossible to mitigate within the decade. Of the 70 million tonnes of hydrogen produced today, only 1 per cent of it is green, i.e. produced using renewable power. Most is produced using natural gas. But if projections prove correct that green hydrogen could meet a quarter[9] of global energy demand by 2050, production of green hydrogen could increase to around 700 million tonnes.

The decarbonisation challenge is on a scale unmatched in human history. But it is one that offers the companies meeting it a 30-year period of growth that surpasses even the internet revolution. If a big enough investment is made and current and future technologies are fully adopted, then the transition to a low (or no) carbon economy can become a reality. We might not get all the way to net zero as fast as we hope, but we can get very close.

[9] Source: Bloomberg New Energy Finance, October 2020.

3 Stewardship Activities

3.1 Collaborative Engagement

3.1.1 Climate Change - Climate Action 100+

China

Fidelity organized and led a second group call with the two Chinese integrated oil and gas companies in December. The main objective of the calls is to understand how each company plans to align its business strategy with China's 2060 carbon neutral pledge which was announced by President Xi in September.

While both companies acknowledged their critical roles in helping China to achieve its climate ambition and their intention to achieve carbon neutral before 2060, one was able to provide a clearer outline of its action plans. These include further improving its product mix to produce even more energy efficient and low emitting fuels and stepping up investment in hydrogen. At the moment most of its hydrogen is grey or brown hydrogen but it has recently partnered with two American firms to conduct R&D in electrolysis technology to lay the groundwork for green hydrogen production. Regarding its upstream business, it has partnered with a number of research institutes in China to look into its carbon emission profile and business strategy with the aim of creating a carbon neutral and carbon peaking target that can be backed up by a business transition plan. This research initiative was launched in November and is expected to take about a year. Upon conclusion of the initiative, the company plans to announce its carbon peaking and carbon neutral target and pathway publicly.

Both companies welcomed our offer to work with them to improve their climate disclosure in their upcoming sustainability reports in 2021. We plan to send in suggestions in writing and follow-up with another discussion in the first quarter 2021.

Mexico

As the lead investor for Climate Action 100+ engagement with a Mexican mining company, Fidelity International held a first call with their Sustainability Manager. We introduced the Climate Action 100+ initiative and discussed the progress made by the company on climate change.

We were pleased to hear the progress made by the company and the commitments to introduce a decarbonisation strategy and improve disclosure in line with the TCFD recommendations in the next Sustainability report. In terms of governance, the company confirmed that the board will be given formal responsibility for climate-related issues.

Further reduction in GHG emissions will come from an increased use of renewables, electrification, optimisation of processes, and potentially some more innovative technologies such as lower emissions trucks. How emissions coming from smelters and refineries will be reduced is yet to be determined. In relation to scope 3 emissions, the company expects to publish a new code of suppliers next year which will address climate change.

We agreed to follow-up with the company in a few months' time, ahead of the publication of their sustainability report.

South Africa

This engagement was conducted by a sustainable investment analyst alongside colleagues from five investors collaborating on the group engagement.

The energy company have released their 2030 climate targets and many NGOs have raised issues saying they're not very ambitious. The challenge they face with transitioning their business is that South Africa does not have the requisite natural gas infrastructure, and the regulations were not renewables-friendly until about 2 months ago. They will be in a position to transition to gas only by 2030 as they have to build the pipelines and infrastructure. The company is on the same page as the investors on the climate transition, and they have a strategy in place to reduce emissions in their operations as well as those generated on-site. They have already cut down their emissions by 10mn tonnes. The targets post 2030 will be a lot more significant.

The company plans to take a top down view on their transition roadmap and balance it with what is possible. Half of their current emissions come from using coal to make hydrogen, with future decarbonization plans based on the possibility of being able to create "green hydrogen" to reduce the majority of their emissions. They consider natural gas as a bridge towards green hydrogen. As currently there is no natural gas infrastructure in South Africa, they have to source natural gas from Mozambique which is a fairly complicated process. Once they have better certainty around natural gas provisions (for which they have a large dedicated team based in Mozambique), they would be able to announce updated targets by the middle of 2021.

The company adopted TCFD in 2017 and have started extensive modelling and scenario analysis around 2 and 1.5 degrees. Their 2019 and 2020 reports, the rising carbon prices and their own analysis of the situation shows that they can't ignore the ramifications of inaction. They have always been supportive of the Paris Agreement and were one of the companies that lobbied to the South African government to sign it. They might not be on the same trajectory as everyone else as there are no current examples of best practices from Coal to Liquid technologies. They are exploring CCS and offsets, looking to partner and show a strong demand for renewables so the sector can grow faster for their utilization. As they pull out from coal, there is a risk on over 20,000 jobs lost which the new plan needs to consider.

Further engagement planned for Q1 2021 to review the company's environmental scorecards which are being finalized.

3.1.2 Climate Change - Paris-aligned accounts'

We co-signed a letter coordinated by the Institutional Investor Group on Climate Change (IIGCC) and sent to the audit committee chairs of top European companies to draw their attention onto investors' expectations for ensuring material climate risks associated with the transition onto a 2050 net zero pathway are fully incorporated into the financial statements.

3.1.3 Supply Chain Management and Human Rights - Crew Change Crisis

What is the Seafarers Engagement Programme about?

As a result of the COVID-19 crisis, restrictions on travel and trade were closing off ports and cancelling flights. This has resulted in hundreds of thousands of maritime workers stranded at sea, as many countries have prohibited seafarers from disembarking when they reach ports, which means no shore leave and no crew changes.

According to International Transport Workers' Federation (ITF), there are an estimated 400,000 seafarers (roughly 30% of the global seafarer population) trapped working aboard vessels, and another 400,000 facing financial ruin as many have not been able to return to work.

Seafarers are subject to Seafarers Employment Agreements, which according to current regulations, stipulate that a seafarer should not serve on board a vessel without leave for more than 11 months. Most shipping companies self-impose 9 months because studies have shown productivity and safety consciousness drops significantly after extended contracts.

Today, Intercargo estimates that Seafarer Employment Agreements has expired for an estimated 35-40% of seafarers currently on ships. Of these, 10% had served between 12-17 months with many seafarers have been working for over 15 straight months.

Why is this an issue?

It represents both an investment risk as well as a social (humanitarian) risk, because....

- International shipping is the lifeblood of the global economy, responsible for 90% of world trade.
- From our everyday goods (e.g. household products, produce, etc.) to commodities such as oil to power our cars and coal to generate electricity, seafarers steer ships so that we can still live our lives without worrying about shortages in essential goods.
- The physical and mental stress of seafarers, whose economic situations are poor to start with and who have little political leverage to change their situation, is a great concern, as deteriorating conditions could threaten the safe handling of cargos and the continuation of shipping services. This is both important from a social standpoint and investment standpoint as from an investment standpoint this has significant value implication through the shipping supply chain.

How does this engagement programme compare to other type of engagement?

Many ESG engagements happen ex-post, i.e. after a major accident has occurred. This is an engagement where we were able to identify an issue early enough to work with other stakeholders to arrive at a solution before a major accident materialises. Given many of the cargos are hazardous, a major event could lead to significant economic, social and environmental damage and it is in everyone's interest to prevent that from happening.

What are some of the challenges to solving this issue?

- The biggest logistical challenge is that many ports are closed to seafarers due to concerns around COVID infection. The lack of flights to transport these seafarers back home between shipping destinations and crew source countries has added to the difficulty
- The biggest political challenge is the failure to recognize these seafarers as "essential workers" which would greatly reduce the logistical issues (e.g. visas)
- The biggest economic challenge is that to mitigate the logistical and political challenge, many responsible shipowners have resorted to chartering flights (e.g. $40K for 11 seafarers from London to Gibraltar, hotel expenses after arriving in Gibraltar hotel for 9 days after arrival) which is clearly not sustainable for shipowners that are enduring losses with their core businesses.
- Push back - Cargo owners are, in some cases, unwilling to deviate from traditional routes to facilitate crew changes due to added costs + time spent
- No Voice - Most seafarers' economic situations are poor, so they don't have a lot of political leverage.

How investors can get involved

- Engage with Fidelity on the issue. We would like the opportunity to speak to you about why this is a critical issue
- Understand what implications shipping and the outlined supply risks have for the companies you own
- Sign our investor letter to the United Nations
- As a letter signatory, be vocal about this issue and why it's important
- Engage with your portfolio companies on this issue.

What have we done so far?

- We have launched a mass email campaign targeting our portfolio companies engaged in shipping business and those benefiting from the services (cargo owners like BHP for example) to ask for their immediate attention on this issue and work collaboratively with shipping companies by being flexible with route deviation to facilitate crew change. We have also urged them to lobby governments to label these seafarers as "essential workers"
- We have launched a media campaign on the back of our letter advocacy to raise universal attention and again as a first step to call for govt recognition of seafarers as "essential workers". At the moment, the issue is only covered by trade journals in the shipping industry

- We have a written joint investor letter to the United Nations, highlighting the issue and asking for action (more on the letter below).

Joint Investor Letter to the United Nations

85 investors representing over $2trillion in assets, led by Fidelity International, have joined forces to urgently address an unfolding humanitarian crisis at sea and preserve the long-term sustainability of global supply chains.

In an open letter to the United Nations, and in consultation with key marine organisations such as the International Labor Organisation and the International Transport Workers' Federation, signatories*, including Achmea Investment Management, ACTIAM, Ethos Foundation, Lombard Odier Investment Management and MFS Investment Management, identify the clear need for the following measures to be put into effect:

- Continuing to call for the official designation of seafarers as "key workers" and the establishment of systematic processes to enable safe crew changes such as safe corridors and testing regimes
- Raising awareness, through a targeted publicity campaign, of the scale and risks that this crisis is already creating for seafarers and sustainable supply chains
- Sharing the International Maritime Organisation's (IMO) 12-step protocol with relevant entities to facilitate universal implementation
- Ensuring seafarers should not spend more than the legal maximum of 11 months on board and limiting any unavoidable crew contract extension
- Urging charterers, especially those that charter vessels on a frequent basis, to be flexible with route deviation requests from shipping companies to facilitate crew change and to consider financial support for the costs of crew repatriation.

The signatories have agreed to engage relevant portfolio companies to communicate their expectations around these measures.

The Letter can be found here.

3.1.4 Modern Slavery - 'Find it, Fix it, Prevent it' initiative

We are participating in the "Find it, Fix it, Prevent it" initiative on modern slavery lead by UK asset manager CCLA. The International Labour Organisation estimates there are 25 million people labouring as modern slaves in the private economy. The objective of this collaborative engagement is to help companies develop and implement better processes for finding, fixing, and preventing modern slavery in companies' supply chains. The UK Hospitality sector is its first focus area before looking at others.
As part of this initiative, we are leading the engagement with a restaurant chain regarding their suppliers' oversight in relation to modern slavery. The company acknowledged that the extent of its suppliers' due diligence was limited. They have been relying on SEDEX (collaborative platforms for sharing responsible sourcing data on supply chains) and focusing on tier 1 suppliers. However, it was encouraging to hear that the company is dedicating more resources to this area with a new team in charge of setting up a supply chain management program. Being able to monitor employment practices across franchises is another area of potential progress.

We have agreed with the company to follow-up after the release of their updated modern slavery statement on several areas including their audit program of suppliers, collaboration with other companies or third-party organisations and working with franchises on their own practices and disclosure.

3.1.5 Modern Slavery - Investors Against Slavery and Trafficking Asia Pacific (IAST APAC)

During Q4 2020, as one of the founding members and member of the Steering Committee, we launched a collaborative initiative called the Investors Against Slavery and Trafficking (IAST) APAC. The purpose the initiative is to drive effective action among companies to find, fix and prevent modern-day slavery, labour exploitation and human trafficking. IAST APAC is a coalition of leading investors including First Sentier Investors, Aware Super, AustralianSuper, Ausbil, Schroders, among others, with collective assets under management of approximately US$4.27 trillion

Insufficient management of ESG factors in a company's supply chain can result in reputational, operational and legal risks, as well as unsustainable business models. The implications to investors are significant if modern-day slavery issues are left unaddressed.

The initiative has two work streams:

1. Investor Statement - IAST sent an investor statement to the ASX100 setting out the group's expectations of reporting companies under the Australian Modern Slavery Act. We are seeking to influence the way these companies report by setting clear expectations to go beyond the legal requirements and address labour exploitation as a leading indicator of modern-day slavery.
2. Collaborative Engagement - we are embarking on a multi-year initiative to address complex and systematic human rights issues in the value chain through collaborative engagement with companies at risk across APAC.

We are co-chair of the collaborative engagement working group and plan to initiate the engagements in Q1 2020.

3.1.6 Gender Diversity - 40:40 Vision (Australia)

In 2020, we joined 40:40 Vision, an investor-led initiative with an aim to achieve gender balance in executive leadership across all ASX200 companies by 2030. The initiative is actively encouraging companies to set and publicly report on their progress against composition targets (40% woman, 40% men and 20% any gender) for executive leadership (CEO -1). An investor letter was sent to the

ASX200 at the end of 2020 explaining the 40:40 Vision goals and requesting companies to sign up to the initiative and publish their composition targets.

We are a lead investor on currently five company engagements and initiated engagement on one of these companies at the end of Q4 2020:

Australian Consumer Discretionary company

FIL's Sustainable Investing Team met with the Head of Investor and Government Relations in the company. The meeting was set up on the back of the collaborative letter sent to the company under the 40:40 Vision.

The company stated that they historically have not had targets or quotas for gender diversity at any level within the company but have had board level targets. The company's senior leadership is all male but they have 1 female member joining in February 2021.

The 40:40 Vision letter was brought to the Board and they committed to set the 40:40:20 targets and announced this at their AGM in November.

They have committed to ensure that there is 50:50 representation at recruiting and are looking into other initiatives but are looking to peers as to learn what best practice looks like. A lot of the leadership in the company comes from franchisees and most of the franchise employees are delivery drivers who are mostly men. They want to promote within where possible. They have set up internal groups to look at the current talent pool of women in the franchises and have recently elected the first female to their Franchise Advisory Council. They want to bring more women on to their leadership committees to create role models for their other employees.

Germany and Japan are two regions where the company is ahead on diversity compared to the rest of their business. In Japan the top store managers are women.

The company plan to publish the short- and medium-term targets during 2021 and have committed to signing to the 40:40 Vision to show their commitment to diversity.

3.2 Thematic Engagement

3.2.1 China Banks - Financing Climate Change

In 2019, we initiated a thematic engagement on Banks and Climate Change, specifically looking at policies on financing coal-fired power plants in Asia. We initially focused on banks in Singapore and were encouraged to see the major banks in the country tightening their coal policies to cease financing CFPPs globally.

In early 2020, we decided to focus on Japanese banks and we wrote to the largest commercial banks in Japan specifically encouraging them to tighten their coal policies further to cease financing new CFPP's globally and to request reporting according to Taskforce on Climate-Related Financial Disclosures (TCFD). We engaged with these banks and they all committed to tightening their coal policies further to allow for less exceptions to their financing restrictions.

At the end of 2020, we expanded this engagement further to concentrate on Chinese banks. We joined a collaborative engagement run by an ESG consultancy called Asia Research and Engagement (ARE) and we participated in a letter written to five large Chinese banks requesting an engagement with them to discuss their ESG risk management practices, lending policies to high environmental risk sectors, climate risk scenario analysis, among other related topics.

We have set-up collaborative engagements with two of the banks for Q1 2021 and intend to meet with the remaining banks in early 2021.

3.2.2 Supply chain management and human rights

In 2018, the Sustainable Investing Team initiated a thematic engagement on human rights & responsible sourcing in the supply chain within the apparel retail sector. During the quarter, it was expanded to European companies and we engaged with six companies over their policies and practices to prevent human rights abuses in their supply chain.

Consumer and intermediate goods

The company has introduced a new suppliers' code of conduct which all suppliers are required to acknowledge and comply with. Over the past few years, several workshops were organised for suppliers around the world to get familiar with the code and discuss modern slavery related to local contexts. The company only assesses tier 1 suppliers but is planning to use information gathering on scope 3 upstream emissions to start the discussion with suppliers about their own suppliers.

A risk assessment was last conducted in 2019 based on country risk and individual supplier characteristics (ownership, labour intensive, etc.). The company audits high risk suppliers either through an internal audit team or an external auditor where it has not the resources or expertise. The frequency of audits depends on the supplier's audit score. Suppliers with a low score are asked to put remediation measures in place to improve practices. The company confirmed it had to terminate relationship with a supplier in Vietnam in the past few years because of its unwillingness to put in place the necessary corrective. Whilst some suspicions regarding a supplier arose two years ago, prompting the company's Chief Risk Officer to go onsite and visit the supplier, it has never found instances of modern slavery.

Regarding living wages, the company started an assessment country by country in 2019 for its own employees. A few instances where the company was paying below the living wage (but about the minimum legal wage) were identified and are being corrected. When it comes to suppliers, the company considers it is a sensitive issue and has decided to address carbon emissions as a more 'neutral' topic first.

Overall, the company has made great progress over the past 10 years on suppliers' assessments and awareness of modern slavery issues in high risk countries. The Head of Sustainability acknowledged that further work was needed to make the suppliers' risk assessment more robust, go beyond tier 1 suppliers and take into account supplies' scores in purchasing practices. We will follow-up with the company next year and continue to monitor progress.

Textile - Footwear

The company has comprehensive programs to oversee its suppliers and is continuously improving its policies. The company's Chief Sourcing Officer is part of the Management Board and she works closely with the sustainability team composed of 22 people sitting in the sourcing countries (China, Vietnam, etc.).

The company last conducted a human rights risk assessment in 2019. Cotton cultivation was one of the high-risk areas identified. The company is part of the Better Cotton Initiative (BCI) and is targeting 100% BCI sourced cotton. This assessment has also led the company to cease supplying from certain countries.

They have mapped their tier 1 suppliers and major tier 2 suppliers. The company is now organising online training sessions mainly for tier 1 suppliers. They have started mapping tier 3 suppliers and subcontractors of tier 2 suppliers. They have started auditing a few warehouses and are planning to do more in 2021. The company is part of several international initiatives such as the Fair Labor Association and the ILO Better Work program. Last year, 40% of the audits conducted were shared with other brands using the same audit standards.

Whilst the company has not directly identified instances of modern slavery within its supply chain, they have identified practices of recruitment fees (migrant workers get into debt to pay a broker who give them access to a job) in Taiwan and Mauritius as a potential sign of forced labour. They have worked with other brands to try and remediate the issue.

The company discloses the list of core suppliers on its website as it is very stable. A partnership approach with suppliers has enabled the company to not cancel orders due to Covid. Audits results and suppliers' assessment can also feed into a financing program with the IFC to access lower financing costs.

The company provides means for workers along its supply chain to raise concerns. For example, workers have access to a local unions' hotline in Bangladesh. In other countries, workers make complaints about unpaid wages, excessive overtime, etc. on their mobile phone. In countries where there is no freedom of association, they provide training on workers voice and relationship with employees.

The company has also been working with the Fair Wage Network to assess several dimensions of a fair wage (salary, stable employment relationship, salary dependent on level of education/performance, wage paid in cash bank transfer, etc.) at core suppliers and is planning to do so in all major sourcing countries.

3.2.3 Covid-19 and executive remuneration

In Q3 2020 we sent out letters to our larger holdings in the FTSE 350 (UK) and the ASX 200 (Australia) setting out our expectations as to how investee companies should approach executive pay decisions in the wake of Covid-19. In Q4, we sent the same letters to our major holdings in the STOXX 100 (Continental Europe) and commenced engagement and voting on this issue in several markets.

A key point of emphasis is that we expect companies that have taken government support to meet their payroll costs to cancel short-term bonuses for executive directors and equivalent senior management for the year. We have considered this issue principally through a reputational lens, both in terms of how payment of bonuses in these circumstances reflects on the individual company, and also how it could contribute the public's perception of private industry as a whole (the 'privatization of profits vs. socialization of costs' problem). We are aware that many of our investee companies have faced difficult headwinds throughout the pandemic and that there may be concerns about demotivating management if pay is cut too drastically, so we have advised that we are willing to accept some flexibility on e.g. the application of discretion for multi-year equity programmes. Beyond this, we have also recommended a general restraint on increases in pay quantum for companies that have been hard hit by the crisis, and have recommended cuts in LTIP grant levels to avoid windfall gains in cases of large temporary falls in the share price at the time of grant.

Subsequent to our letter campaign, we have discussed our expectations with a number of UK investee companies and remuneration consultants. We have also engaged extensively with Australian investee companies on these issues, both prior to and during the 2020 Australian AGM season in September-November 2020. We have been generally pleased with the responses from our larger UK holdings so far. In particular, we are grateful that most of the larger UK holdings we have spoken to have elected to cancel bonuses for executive directors when they have furloughed staff during the performance year. In Australia, results have been mixed, as many boards of companies receiving wage subsidies chose to leave executive bonuses in place or reduce them partially. As a result, our level of opposition to remuneration voting items in the Australian market rose during the 2020 AGM season.

3.3 Company Engagements

3.3.1 Asia ex Japan

China

Technology

The sustainable investing analyst and the sector analyst arranged an ESG call with a pre-IPO company engaged in the business of autonomous driving technology development and application such as robo-taxi, robo-truck, and robo-bus services in China and overseas. The main aim of the engagement is to gain a better understanding of how it is managing its key ESG issues, given private companies generally do not perform structured reporting on ESG topics.

The company is still in pre-operation stage with primary activities limited to R&D and hence has minimal environment footprint. That said, energy consumption optimization is well built into its technology development. The technology is vehicle-type-agnostic and the company envisages to have a large proportion of EVs for its robo-fleet once in full commercial operation. The company also has a strong track record of safety performance during testing phase with only three collisions in 2019 and 2020. It has a strong emphasis on complying with local government rules and regulations in conducting testing and trials. It claims to have a culture of safety first and safety performance carries a significant weight in everyone's performance evaluation. Moreover, the company has proper insurance coverage for all passengers and safety drivers.

One area we suggest the company look further into is community impact. Although the technology is still a few years away from full commercialization, its eventuality means a large number of tax drivers, truck drivers, and bus drivers will be at risk of losing their jobs. While the company is of the view that their business will create new employment opportunities around fleet maintenance and safety drivers it agreed that those retrenched may not have the necessary skills for the new roles. As such, it was very receptive to our suggestion of partnering with local governments to launch retraining programs to start acting early in dealing with the potential job displacement that is likely to be brought about with its business.

Biopharmaceutical company

We had a positive ESG engagement with a Chinese innovative drug producer whereby the CFO demonstrated clear understanding of the company's key ESG issues and was able to articulate its management approach suggesting robust measures around executive remuneration design, incentivizing sales teams, supplier quality control, and employee and supplier misconduct particularly in relation to anti-bribery and corruption behaviors. There are also clear signs of the company taking ESG seriously and wanting to establish itself as a leader in this front. It is receptive to our suggestion of setting improvement targets for its key environment impact.

On corporate governance, while the board only meets four times a year, each meeting lasts 4-6 hours and all independent directors participate in the annual strategic meetings. With 50% of the board being independent and two out of the three independent directors being industry experts, the board is well positioned to provide meaningful strategic guidance and managerial oversight. KPIs of senior management seem to be well aligned with its business development strategy and focus. KPIs for senior sales managers are also based on a wide array of factors including coverage of hospitals rather than a single topline number, suggesting a more holistic assessment that tend to lead to more sustainable outcomes. We plan to monitor the company on setting environmental performance targets and have more in-depth discussions on supply chain management, talent acquisition and retention, and anti-bribery and corruption management as a next step.

India

Indian Oil & Gas Refining Company

FIL's Sustainable Investing Team and Asian Energy Analyst engaged with the company on their overall sustainability strategy. They are rated poorly by our external rating provider which triggered the engagement as the analyst was aware of the company taking positive steps to improve on their sustainability performance. We spoke with their Investor Relations team.

The company has pledged to a net zero target by 2035 and intend to publish a road map to this pledge in the next 2 years. They will be incorporating science-based targets as part of their roadmap. As part of their plans, they intend to reduce their diesel consumption as it is the 2nd largest source of their emissions and also they are looking to increase their exposure to hydrogen. They are also looking at new technologies to reduce the impact of their emissions and plan to include carbon capture as part of their strategy. They will also be looking to include scope 3 emissions in their strategy which will also be a requirement under their supplier code of conduct. The company plans to increase their disclosure on these topics over the next 18 months to 2 years.

The company confirmed that they are in the process of renewing their board. They are aware of the long tenure of some members, but it takes time to bring on new people. They are also cognisant of skill set and diversity at board level. They are also working on building a talent pool within the company for succession planning concentrating on broader skill sets. In relation to overboarding, the company does restrict the number of boards directors can serve on.

In relation to diversity, they have reached 15% women in the workforce last year, ahead of their target. This was not only because of changes to their recruitment practices but was also achieved due to cultural transformation in the company, female mentoring, improved programmes for maternity, family planning. They also provided a lot of soft skills training and D&I events. The company states that they are one of the best companies in the country for diversity, they have a lot of assertive actions in place which is making them stand out versus their peers.

The company has made positive steps to improve their sustainability performance and intends to increase their disclosure on the topics. We encouraged more transparency ahead of the 2 years that they were aiming for. They company stated that they see the upside of increasing their disclosure and are aiming to do so. They said it may seem minimal to start with but it will increase over time. They want to learn from their peers regarding best practice.

3.3.2 Japan

Diversified Chemical Producer

As we have reported in a previous report, Fidelity's engagement team along with the investment team have held four engagement meetings with the company, including the one with the CEO in March, which was his first-time meeting with investors, to discuss ESG initiatives. Follow-up meetings were continued by the analyst, who repeatedly stressed the need for improved disclosure and communication with investors. In November, the company announced its new medium-term financial target, which positively surprised the market by being the first constructive commitment to the shareholders, in contrast to its previous remarkably conservative stance. In December, the company also released its first integrated report and detailed ESG data book, which included all the items we requested, such as the CO2 emission reduction plan and the establishment of a procurement policy that takes the environment and human rights into consideration, reaching a level that can be called best practice.

Automotives

On 14th December 2020, the company announced that the board decided to buy back and to cancel all outstanding AA class shares by exercising their call options. AA class shares were issued in 2015 and had received a lot of criticism as they were issued only for Japanese retail investors and had a higher dividend yield with downside protection and voting rights which would create management-friendly shareholders. Buying buck these AA class shares is absolutely in line with what Fidelity asked Toyota in the meeting in September 2020. They once pushed back our suggestion because buying back common stocks does more make economic sense than repurchase of AA class shares given the dividend yield difference. However, eventually they decided to repurchase the AA shares, not common shares. This was the third achievement of our long-standing engagement since 2015 when the AA class share issuance was approved with thin margin in the AGM as a special resolution. The remaining two were: although the AGM in 2015 approved the company to issue 5 sets of 50 mil AA shares, the company did not issue the rest of the series (4 x 50mil shares) as requested by us and; Toyota hosted their first investor day in 2017 and invited Fidelity to their US headquarter in Texas which was the first time for CEO to show up in-person in front of institutional investors. Fidelity had sent our deep concerns to them that lack of direct communication between institutional investors and CEO.

Telecommunications

Fidelity has had a number of engagement meetings with the CFO, Director of the Board of a Telecommunications company on a wide range of issues over the past two years. In April 2019, we handed a "value creation diagnosis chart" and explained to him that CFROI could not exceed the cost of capital as the company depresses the consolidated profitability potentially due to the hindrance to prompt management decisions as a result of the parent-child listing. We also pointed out concerns of the parent-child listing about conflicts of interest with minority shareholders. In recent meetings, we discussed the importance of sharing data widely without monopolization in the smart city business, communication with investors about up-front investment for sustainability, efforts to reduce CO2 emissions through reduction of power consumption and human resource development in the field of data security. Our engagement efforts flourished in the form of the company's announcement in September 2020 of making the company a wholly owned subsidiary.

3.3.3 Australia

Real Estate Company

FIL's Sustainable Investing Team engaged with Investor Relations and the Head of Sustainability in the company. The company is progressive in their sustainability performance and we engaged with them to gain further insights into their future sustainability plans.

The company reached an 8% reduction in scope 1 & 2 emissions in 2020 of which 2% is due to Covid and lockdowns. They are creating longer-term targets for scope 1 & 2 emissions. They have set a net zero target initially for their scope 1 & 2 emissions but plan to expand it to scope 3 also once they have addressed the emissions they control. They have also aligned their strategy to science-based targets and are working with their tenants to bring them all on board. They are also looking at how they can create positive impact.

They are also running scenario analysis across their business concentrating on 2 degree and 1.5 decree scenarios. They are looking at both transitional and physical risk together with policy and technology changes. The company plan to disclose their climate resilience metrics up to FY2025 and FY2030. All new developments in their portfolios must now undergo a climate change adaptation review and plan before they enter the portfolio. They have also made commitments to substantially increase their renewables use by 2025, specifically by using solar panels for their offices. The company is also offsetting their carbon from their construction emissions, they are looking at 10-20% offsetting and the projects relate to communities hit by drought and bushfires.

The company pledged 1% of their profits from funds under management to community partnership and have also allocated 2 days a year for employee volunteering. They have revised their community investment strategy during the pandemic and are working to support vulnerable young people who have been impacted by Covid due to the big economic shock.

Their Modern Slavery Statement going to the board before the end of 2020 and they intend to publish it early 2021. Their approach focuses on governance, procurement and education. They ran a risk analysis and identified their key risks areas as cleaning, security and low skill workers. They identified 101 suppliers at risk and are part of an industry collaboration to create an industry wide approach to address the risks facing these suppliers. Lots of suppliers, large and small, are learning and getting their house in order. The companies are working with them, they don't need to have it 100% right straight away but the companies are giving them support to improve their practices.

They are also looking at the weight they give to modern slavery information from their suppliers and how it's assessed as part of their overall supplier review. They are looking at firstly whether their suppliers are compliant with the law and secondly what are the most common red flags, e.g. sourcing from overseas. They intend to address the issues with the suppliers that have red flags rather than stop using them. They are also working with their suppliers to dig deeper into their supply chain, looking at tier 2 and 3. They have introduced a whistleblower hotline specifically for their suppliers in the last 18 months and plan to do more in-person visits on their supplier sites.

The company has diversity targets for board and senior management. Females account for 35% of senior executives and approx. 50% across the workplace. The board is currently 28.6% female. The company is now looking beyond gender, to concentrate on cultural and sexual backgrounds. They also have LGBTI initiatives and are considering creating age and cultural targets also.

In relation to the governance of sustainability, the Head of Sustainability reports to the Audit Risk and Compliance committee and the board hears quarterly, sometimes more often, on sustainability matters. They established a sustainability committee this year with 2 board members and 3 executive committee members and that is in part desire from Board as they want to get involved in the development of strategy.

3.3.4 Europe

UK: Distribution and Outsourcing

An analyst and sustainable investing analyst participated in a materiality assessment conducted by the company and encouraged the company to progress in several areas including responsible sourcing and supply chain management, climate change and the impact of the products they distribute. We discussed these with the Head of Sustainability and were reassured that the company is doing more than it currently discloses and has initiated several projects to further develop their practices.

Notably the company's internal audit team based in Shanghai is responsible for auditing supply facilities in high-risk countries, representing about 25% of their suppliers, and conducts about 700 on-site visits every year. Whilst the company has no tolerance for major issues such as child labour, it works with suppliers to put a corrective plan in place for minor issues and stop buying new products until remediation. A handful of suppliers' relationships is ceased every year though. The company is now planning to expand the audit program to additional countries and 'tier 2' suppliers. The company has been working with several clients on a life cycle assessment of their products. Sometimes it involves making sure that clients have the right waste disposal contracts in place. The company is about to launch a new website offering sustainable alternative products to its traditional range. It is also working on scenario analysis with an external consultant and will be introducing GHG emissions reduction target next year, starting with scope 1 and 2 emissions.

We were pleased to learn about the company's progress and plan but encouraged them to disclosure quantitative KPIs to be able to measure progress on the impact of their products and consider scope 3 emissions as part of future GHG emissions reduction targets. We agreed to follow-up next year once they have announced their new sustainability targets.

UK: Plastic Products

An analyst and sustainable investing analyst engaged with the supplier of plastic and fibre products on their environmental and social practices. The company announced new environmental targets over the summer. They are targeting carbon neutrality by 2040 (for scope 1 and 2 emissions) and an interim target of 25% reduction in emissions intensity by 2025 (vs a 2019 baseline). All sites will reach zero waste to landfill by 2030 at the latest and a 20% reduction in overall waste volumes by 2030.

The component division is also aiming for 20% of packaging and raw materials sustainably sourced by 2025. With only 3%-4% sustainably sourced today and many products being highly specified, the company considers it is a significant step. Other divisions are also working on biodegradable products and the recyclability of packaging. A design hub has been set up to help clients design more sustainable packaging. About 70% of products are not single use plastics and auto manufacturers are one of the biggest customers. However relevant recycling streams are often lacking.

Most of the company's GHG emissions lie in scope 3 emissions. The company has not set a target on scope 3 but is working on its material sourcing strategy. Plastics products used in the components division carry the highest environmental footprint so the division is used as a proxy. They aim to provide more disclosure on material sourcing over time.

Whilst the company requires suppliers to adhere to a number of standards including regarding modern slavery and investigates those who haven't signed up to the standards, it acknowledged that more work was required in terms of auditing their supply chain.

Finland: Food Packaging

A sustainable investing analyst attended the food packaging company's ESG event hosted by the CEO and the sustainability representative. About 67% of its packaging is already recyclable or coming from renewable sourcing. The company is now targeting more than 80% as part of its 2030 environmental targets. Notably the company is committed to design all its products as recyclable, compostable and reusable, thanks to plastics substitution, reduction in polymers and use of alternative polymers (sugar cane, rice, etc.). It also targets carbon neutrality for its operational emissions and all its energy coming from renewable electricity. The company is planning to put water management plans in place including water management benchmarking and intensity reduction roadmap.

Whilst the company's suppliers' code of conduct include the respect of human rights and due diligence is conducted for most key suppliers, the company will be expanding its suppliers' due diligence to all key suppliers by 2021, expanding its reach beyond key suppliers and initiating a suppliers' audit program.

Ireland: Mining Company

An equity analyst reached out to the mining company following news of a fatality at their mine in Mozambique at the end of August 2020. Whilst the police investigation is still on-going, we discussed health & safety procedures and other sustainability initiatives at the company with its Managing Director, Head of Sustainability and Chief Operations Officer. The company has a policy (available in English and Portuguese) and a management system in place and it recorded a constant reduction in Lost Time Injury Frequency Rate (LTIFR) over the past years. However, management admitted that safety accountability and leadership had been less a focus over the past 18 months due to a number of on-going projects and the impact of Covid-19. Several measures have been taken including a complete review of hazard identification and a risk assessment for every task (even for non-critical work). Managers' variable remuneration is already subject to health & safety and environmental criteria, but more emphasis will be given to these in the future.

Mineral sands operations are quite water intensive, but the company does not currently disclose the proportion of recycled water used. While all the water they extract is returned to the aquifer (enabling a closed-circuit operation) and the mines are not located in a water-stress area, they have recognised that they could improve disclosure. They will start reporting next year in line with the ICMM and GRI guidelines in 2021.

We also engaged with the company on lack of sustainability targets in place. The company has already set a target on land rehabilitation and confirmed they will be introducing some targets related to water and climate change next year. We stressed that practices are evolving rapidly in this area and net zero targets fast becoming the norm. The company mentioned they responded to CDP for the first time in 2020 and will also be looking at TCFD recommendations.

Regarding supply chain management, they admitted that they are not auditing all suppliers but are moving towards auditing all Mozambican suppliers, and are developing their local procurement process to onboard new suppliers, provide them with the company's policies, and require those suppliers to show an ability to follow those policies.

We will monitor the company's progress in all these areas and follow-up next year.

Spain: Solar Energy

An equity analyst, portfolio manager and sustainable investing analyst engaged with the solar energy producer over its sustainability disclosure and practices. Whilst the company's disclosure has historically been limited, it demonstrates very good practices for a company of this size (90 employees). The company has created an Ethics, Compliance and ESG Committee on the board, has adopted a new sustainability policy and published several ESG indicators earlier this year. It is also planning to publish a sustainability report early next year.

The company has set a target to reduce its carbon footprint by 14% by the end of 2021 and aims to achieve carbon neutrality. Scope 3 emissions will be measured and disclosed next year. The main challenge to reduce these will be to convince small construction companies to reduce their emissions.

The company provided an example of environmental assessment carried out to secure the relevant construction permits in Spain. It also measures the environmental and economic benefits of each project and communicate these to local authorities. Strong relationships with local communities are also required for them to be able to operate.

France: Multi-National

In November, FIL held a detailed discussion with a robust group of sustainability-related executives at a company. The company detailed the two facets of their sustainability agenda: the first being 'Internal' i.e. the company's own environmental impact. This global environmental system is deployed in 29 countries and 99% of the company (not including the Altran acquisition), focusing primarily on travel and energy consumption. They have set SBT's (science-based targets) aligned with a 2DS (two-degree scenario), with internal targets delivered in January 2020 that call for, among other things, relying on 100% renewable energy by 2025 (vs. 46% last year); and becoming net zero by 2030.

We sought to better understand the governance of sustainability within the firm, and learned that Shobha Meera, the new Chief CSR Officer (who joined 7 months ago), sits on the Executive Committee for CSR, and that at the Group Executive Board level, Cyril Garcia is the executive sponsor for CSR and Sustainability. The Board of Directors sets the CSR strategy at the company since 2017, with an Executive Committee for Strategy and CSR Committee tasked with this, updating the Board on implementation on an annual basis. The Company confirmed that CSR KPI's are included in performance share plans for top management.

Additionally, the Board sets diversity objectives, which includes a 2020 target for VP inflow of 30% women, and Group Position Holders (137 people) of 20% (from 17% in 2017), or an increase of women at senior levels of about 1% per year. They are also seeking a more global diversity policy, not just gender but also diverse races, backgrounds, etc. They noted that their Board currently has 78% independent Directors (in line with their usual c. 80%), and that since late 2019 they have separated the roles of CEO and Chairman. One of their Board members is a female with a phD in Cybersecurity.

The company plans to release a new People Initiative in the coming year "Get the future you want." This will include a new flexible working environment, and today 92% of their 270k workforce are currently working remotely. They seek to implement and continuously upscale flexible working arrangements, which they believe will also help them retain young females and to promote diversity as employees rise.

We had hoped to discuss matters relating to data privacy and cyber security, but as there were no CAP experts in these subjects on this call, that specific discussion was postponed until a later date (January). CAP expressed that they are eager to continue discussing and learning what we believe to be meaningful ESG activities and benchmarks, as they seek to implement meaningful targets within their company and business practices.

Russia: Energy

An equity analyst and sustainable investing analyst engaged with Lukoil over a number of key sustainability topics including disclosure, practices and targets.

Whilst the company's disclosure has historically been limited, it has recently pulled together a special task force responsible for climate issues reporting to the 1st VP and Board member responsible for the company's Strategic developments. This task force will also be responsible for the preparation of sustainability reports, supported by a working group on systematic enhancements. The task force reports to the board committee on environmental, health and safety issues. Company management acknowledges growing importance of ESG for their investment case and should enhance systemic approach.

Disclosure is improving, with scope 1, 2 & 3 emissions covered compared with only scope 1 in the past. However, the latest carbon emission reduction targets expire in 2020 with the current target of CO_2 reduction by 1.2% by 2020 was in 2016 (base year) covering only Russian operations. By 2019, the company had delivered >3% reduction (above targets) in absolute emissions while growing production. Updated targets will be published in 2021.

Plans are in place to start linking environmental KPIs with management compensation plans as well as to improve Health & Safety targets.

3.3.5 North America

Canada: Mining Company

Members of the investment team including the equity analyst and sustainable investing analyst engaged with the mining company over sustainability issues. Whilst the company has been involved in several environmental and social controversies, it considers most of them are now legacy issues the company sought to address. It has implemented a new sustainability strategy which should strengthen its license to operate. Its operations in Papua New Guinea remains controversial as the company was unable to set up a tailing's facility for safety reasons. The company has put a number of plans in place to reduce the volume of sediments that go into the river though.

Among other topics, we also engaged on the company's efforts to reduce carbon emissions. The Lead Independent Director confirmed the Board's commitment to invest in new technologies as they become available, especially in countries where there is a high reliance on fossil fuels. While the company is not in a position to announce net zero targets, it has taken steps to increase electricity coming from renewables, move away from legacy coal plant and meet its -10% GHG emissions reduction target by 2030 (vs 2018). The company supports the TCFD recommendations and will be updating scenario analysis over the course of 2021.

We enquired about the fatality recorded at one of their mines in November 2020. Unfortunately, a loader did not follow the procedures while refuelling a truck. The company reinforced communication around those procedures as well as communication from top management on health and safety.

Canada: Food Retailer

In October, FIL Equity and Sustainable Investing Analysts and other Investment Team members met with company representatives to review governance as well as other sustainability topics. The company requested feedback on how Fidelity International views board renewal (term + age limits), representation targets, and ESG analysis.

The company's board currently has a term limit of 15 yrs and an age limit of 72. We confirmed that FIL view term limits favourably to maintain board member independence, but we do not suggest an absolute age limit. Real Raymond is nearing their current age limit, so they may look to recruit a board member with a financial sector background upon his retirement. The company currently has 31% female representation on the board, which is in-line with FIL preference for 30%+. The company acknowledged they may evaluate other areas of board diversity, such as ethnic diversity, but they feel that their narrow geographic exposure (Ontario and Quebec only) limits the diversity of the communities which they serve.

Management compensation in the LTIP is currently linked to ROE targets and EPS growth relative to L and EMP/A. They have discussed the possibility of integrating ESG-related metrics into management comp, but there is still some uncertainty on which ESG metrics are the most relevant.

We reviewed the integration of PJC, which to date has been successful from the board's perspective. The process leading up to the transaction lasted >2 yrs due to qualitative considerations, particularly the Coutu family's interests, in addition to pricing. Real Raymond, the board's current Chairman, was helpful during the process due to his experience in banking. A recent labour dispute at a PJC distribution centre has delayed some aspects of the integration, but the board still believes the synergy targets are achievable. Francois and Michel Coutu joined the company's board following the transaction. They are not independent directors, but contribute deep knowledge of the pharmaceutical industry.
The company previously released a report with ESG-related targets for the 2016-20 period, but Covid-19 has delayed the refresh of these targets to incorporate a new 5-year plan. The company relies on an internal audit to manage environmental and social risks along the supply chain. SASB and GRI are being considered ESG reporting frameworks, but this is still in flux. Key FIL ESG criteria for the subsector include carbon emissions, packaging and food waste, and product safety, and we expect to receive updates on these measures in the renewed corporate responsibility plan. We highlighted concern about food waste and packaging: their food waste efforts look good, but perhaps they can stretch their packaging targets more going forward.

We also discussed the impact of Covid from an ESG perspective, and the board believes that the crisis has demonstrated the strength of the company's leadership team. Indeed, the CEO was recently recognised as "Canada's Outstanding CEO of the Year" by the Financial Post. During Covid, the company was considered an essential service and suffered no store closures. Worker safety was supported with plexiglass installed in over 600 stores within one week; PPE was obtained; greeters were hired; and hourly cleaning was implemented. Although the situation was difficult and complex, they felt it become a rallying moment that improved relationships with unions, as everyone focused on remaining open and keeping people safe.

United States: Technology

In December, FIL Sustainable Investing Analysts engaged with Intel in a Q&A to gather updates on the company's ESG initiatives. We reviewed some of the key points in Intel's response to Covid-19, as led by management and overseen by the Board, which has included aspects of focus on: employees (vast majority working from home); customers (teaming with other companies on analysis and equipment); and communities (PPE for healthcare workers, $50mil Pandemic Response Tech initiative).

Intel wanted us to be aware of the overview of the company's business transformation - from a PC-centric company to a data-centric company - as a backdrop for their approach to sustainability. "If everything looks like a computer, how do we enable climate impact, ours and our customers'?" Some answers to this include reducing energy in data centres and promoting sustainable PC design. While data transformation opens up opportunities, it also presents challenges. They confessed that one of their challenges is how to continue to drive the pace of reduction in emissions while continuing to grow (they have reduced emissions 30% over the last 20 years). As a foundation technology for the internet, they take their responsibilities seriously.

The company has recently set and released their 2030 ESG goals, incorporated in their "RISE" framework: Responsible; Inclusive; Sustainable; and Enabling. The goals, which they believe to be ambitious, include targets for employee wellness, supply chain human rights, workforce and supplier inclusion and diversity, and accessibility. Intel aims to achieve 100% renewable energy use across their global manufacturing operations, driving an additional absolute 10% reduction in Scope 1 and 2 emissions, and achieve net positive water use by conserving 60 billion gallons of water. They are targeting zero total waste to landfill and implementing circular economy strategies for 60% of waste streams.

With respect to governance, we were brought up to speed on the current Board composition, and were asked for our feedback on compensation issues. 8 new Independent Directors (of 10 on Board) have been brought on since 2016, and currently the Board has 30% female members and 30% people of color. Key changes have been made to the 2020 annual performance bonus plan, incorporating streamlined operational goals and expanded ESG metrics.

We discussed the company's approach to Digital Inclusion, as they are convening a group of CEO's to develop a Digital Inclusion Index. In their own programs, they have focused on middle school girls in STEM, as this is the age where female participation tends to fall off. They have also implemented an AI for Youth programme, which they have piloted in 10 countries and plan to reach 30 million individuals by the end of this decade.

United States: Domain registrar and Web hosting

In December, the FIL Equity and Sustainable Investing Analysts met with the company to engage on their new, formal ESG Program, established in 2020 (possibly prompted by the new CEO who was hired in August 2019). The company completed a materiality assessment in August 2020, and has begun engaging with scoring companies including MSCI, ISS, etc., with the goal to exit 2020 with a prioritized ESG framework and their first dedicated ESG reporting in 2021. The engagement with ratings agencies has been productive for the company, with significant ratings upgrades throughout 2020 as a result (eg MSCI upgraded twice, with overall rating going from B to BBB).

The company has focused, among other things, in improving their Governance and Corporate Social Responsibility. The Board of Directors is directly reported to by an Executive ESG Committee, which meets quarterly and is in turn informed by an ESG Steering Committee comprised of functional leaders across the company. The Nominating Committee additionally advises the Board on ESG matters. Board features and compensation metrics are aiming for best practice. For example, 8 of 9 Directors are Independent (the CEO being the exception). Performance metrics and vesting periods have been updated. Well-documented pay parity exists among employees for both gender and ethnicity, although we note that this is true currently only for US employees (79% of the company's workforce). Disclosures are also robust with respect to employees' genders and ethnicities across various levels of the firm (Interns/Tech/Non-Tech/Leaders), with the usual improvements desired in female proportion of Tech roles (at only 19%), but otherwise improving and generally reasonable current figures.

The company shared their early environmental initiatives, although these are at a less robust stage of development than those around data security and privacy, and cybersecurity. The environmental efforts seem fairly narrow and general, mainly involving gathering information and disclosing BAU. We suggested that although this is a good start, ideally the company will quantify the data and set quantifiable targets. They were keen to explain their data security and privacy "posture," detailing the various approaches and methods they use, along with five separate assessments they have had done to attest to the security of their IT environment.

We expect that the company will publish their first dedicated and comprehensive ESG report in by summer 2021.

United States: Multinational Conglomerate

In December, FIL joined a group investor Sustainability call hosted by the parent company of a technology subsidiary, with questions gathered in advance and information given in a presentation format. Although this is among the least interactive forms of engagement, nonetheless it was helpful to hear from the subsidiary on some key ESG issues.

The main topics concerned a brief update on governance issues, along with a considerable discussion of data privacy and AI issues.

Focusing on data privacy, the subsidiary said that they believe they are a leader in transparency on data privacy, and that privacy is a core value 'built into everything we do'. Their three principles are to: 1) keep user data safe; 2) use it responsibly, and 3) give users control over their data (and make it easier to do so). They explained that they support smart data privacy legislation and regulation.

The VP of AI Policy at the subsidiary was given the floor to discuss at length the company's AI Principles. These were drafted in 2018, and have two components: 7 commitments ("Objectives") for AI applications, and 4 application areas that they will not pursue. Details were provided around how these AI Principles are implemented and enforced throughout the life cycle, stating that the subsidiary is very proud of the work they have done to operationalise these principles to change culture and practice. For example, Technology Ethics training for employees in AI Principles and Practices was completed by 2k+ employees in-person prior to Covid, and 10k+ online courses have been taken by employees since Covid. the subsidiary's ML (Machine Learning) 'crash course' is publicly available, and had been taken by nearly 80k people at the time of our meeting.

The subsidiary answered questions regarding how they think of risks related to things like regulation, bias in AI and facial recognition. The parent company CEO is on record as saying "AI is too important not to regulate," and they support regulation. They believe GDPR is a strong governance foundation, and they believe other areas (such as governance of self-driving cars) need to be developed. They strive to build fairness - one of their core AI principles - into AI design. They have a 5-principled Facial Recognition Framework and support responsible development and use of facial recognition.

In response to the question of whether the parent company would publish an ESG report compliant with SASB, they explained that they do provide numerous sustainability-related reports (albeit in various forms on different parts of their website). They boasted of being on the CDP 'A list' for 6 consecutive years, and believe that this reporting addresses TCFD disclosures.

United States: Personal Care

In October, the FIL Sustainable Investing and Equity Analysts took the opportunity during the proxy off-season to catch up with the company executives on topics including corporate governance, executive compensation and sustainability programs.

We reviewed the current composition and strengths of the K-C board, and we reminded them of our general position opposing the combining of CEO and Chair of the Board roles (K-C has combined the roles). One member of the Board is delegated a 'Lead Independent Director with Authority' to (semi) address this issue: this Director chairs the exec committee and sessions, approves board agendas, and leads the CEO performance review.

With the exception of the CEO's role on the Board, the other 11 of the 12-member Board are independent. We were updated on the Directors' qualifications and diversity profiles.

The company's Board members' tenure in the past was a cause for some concern. However in recent years the company has sought to renew and update the Board, with the result that although four independent directors have 10+ years of tenure, the remaining 7 have 0-5 years tenure, and tenure will continue to decrease with anticipated succession planning.

We reviewed the company's compensation policies and practices, which seem reasonable, although we do note that we consider best practice to be LTIP vesting periods of five years (not the company's 3 year period), although their practice is standard for US companies.

The company provided updates on their progress toward their Sustainability 2022 goals, which include quantitative targets that they are largely on-course to meet or exceed. Examples of priorities include: 40% absolute reduction in Scope 1 and 2 GHG emissions by 2022 from 2005 baseline (by 2019YE they have achieved c.35% reduction, and now upped their target to 50% decrease by 2030); 100% of manufacturing waste diverted from landfill to beneficial uses (96% achieved); and 50% reduction in use of natural forest fibre by 2025 (31% achieved).

We emphasised our additional concerns related to water usage, particularly in water-stressed areas, and biodiversity loss, which are areas the company is also working on and looks set to ramp up with new ambitions for 2030. These include 50% reduction in water usage in water stressed regions and reduction of new, fossil-fuel based plastics by 50%.

We queried the recent recall of a product in North America based on bacteria present that can impact people with a compromised immune system. The company said that, as of our discussion, it was too early to assess the impact but thought it unlikely to be material. The company explained that such bacteria are naturally occurring, and they maintain that testing and reporting infrastructure is robust and hasn't changed as a result of this recall.

United States: Consumer Goods

In November, the FIL Equity and Sustainable Investing Analysts held a 1:1 sustainability engagement call with the company.

We drilled down on their sustainable palm oil policies, requesting an update since the AGM Shareholder Resolution on better/more reporting on deforestation and palm oil. They explained that they are working with a team of experts to take a critical look at doing what the resolution asks for. They may be able to accelerate certification on palm oil and wood pulp. They will complete the CDP forest survey. They confirmed that the company are committed to NDPE (No Deforestation No Peat No Exploitation) and are members of RSPO 2018 and feel it's a good update/policy. However, they also expressed that NGO's can confuse the issue for people not so close to the topic, and that no certification is perfect.

The company expressed that climate change issues at the forefront for them include: pursuing the science-based targets they have established; looking at ways to reduce emissions; accelerating work (on emissions reduction) with their supply chain; reducing packaging waste; and continuing to focus on water scarcity.
On governance, a FIL PM highlighted that all of the Board members are within a two-hour flight of P&G headquarters in Cincinnati, Ohio, and that some broader i.e. international experience could be of benefit to the otherwise multinational company.

3.3.6 South America

Brazil: Retailer

In October, the FIL Equities Research Director, Equities Analyst and Sustainable Investing Analyst met with a retailer to update our understanding of the company's efforts in sustainability. They were also keen to get our inputs on which third-party references (sources) we see as most important for them to address. For example, in the past year they have used ISS as a 'reference' for 'G' issues, and have improved their ISS Governance score from 9 a few years ago, to 7 as of April 2020, and now to a 1 (mainly due to formalizing procedures and reporting).

Regarding governance, we expressed our concerns regarding the dual share class structure that allows three billionaire controlling shareholders to maintain 61% of the voting rights and 40% of the economic interest in the company. They confessed that this is a recurring topic over the last two years. In particular, discussions regarding moving to Novo Mercado could prompt their removing the dual share class structure; however due to Covid the talks have been postponed and they said at the moment it is "not top of mind," although at least it is being discussed.
We also broached the topic of lack of majority independent Board members. The number has increased from zero to three (of 7 Board members) in the past year, and they seek to increase the number to four. Just one of 7 Board members is female, although two of three Audit Committee members are female. They do not have specific gender diversity targets, although they told us that there are more women than men in Manager positions across the company, although gender parity is not the case with Directors.

We discussed in some detail the company's approach to ensuring customer data privacy and cyber security. The new Brazilian General Data Protection Law, LGPD, has come into effect in Brazil in 2020, which should improve the framework and standards. Lojas says they have made updates and investments to be 100% compliant with the law. They have c. 50 people on their cybersecurity team, with a Board member who is the head of the cybersecurity committee. They have spent BRL 100mn in last 1.5 years in cyber security and data centres, and have been administering training. They have experienced no material data breaches.

We had a discussion around remuneration and KPI's. They explained that they have they have just hired a consultant to help them with their ESG strategy; they are using this year to design strategy around E and S for the future, including remuneration approach.

We queried the company's management of environmental and social risks, particularly along the supply chain. They responded that they demand compliance from suppliers. Suppliers need to state that they are in compliance, and the company audit them every 2 years. For most risky parts, they hire 3rd parties. For other parts, they do the audits themselves. They are considering reducing the audit term from bi-annual to annual.

The company have an important 'social seller' impact project in the Amazon rainforest - giving some communities there access to the internet. They have also provided training in entrepreneurship/ tourism and artcraft; then bring them as a seller to their marketplace. The company then sell the artcraft from the Amazon on their market, and help to do the deliveries. Social seller programme.

Regarding key environmental issues, they have tracked emissions since 2009. Last year they became a carbon neutral operation, offsetting in scopes 1 and 2, and have a plan to offset scope 3.

3.4 Proxy Voting

Energy

We engaged with the company on proposed changes to their remuneration policy in August and September 2020. The outgoing chairman was minded to replace management's performance-based long-term incentive plan with a restricted share plan i.e. a plan that would grant time-vesting shares without performance hurdles. This was partly in response to a rival company's attempt to poach a key executive, but also based on the conviction that an incentive scheme based on financial or share price-linked metrics would be inappropriate for the next several years. Historically, the company's share performance has been strongly linked to the brent oil price, and the company is now pursuing an energy diversification strategy which may affect the returns profile in the near term while significant up-front investment is needed.

We supported the board's rationale, but felt that the share ownership requirement and the transparency of the underpinning conditions could be strengthened. We also asked the board to reconsider its intention to raise the CEO's fixed pay and target short-term incentive, which would have meant his total target pay would substantially increase whilst being de-risked at the same time. The board responded by revising the terms of its proposal to address these concerns, and we confirmed our intention to support based on the revised terms.

Following concerns raised by other shareholders and proxy advisors, the board made a further revision to the plan shortly before the AGM to include performance-based share grants based on total shareholder return. We determined that the revised plan still merited support based on the revised terms and decided to vote in favour of the remuneration report to signal our support.

The remuneration report was approved at the AGM.

Mining & Metals

An Australian NGO filed a shareholder resolution asking the company to adopt a moratorium on undertaking activities which would disturb, destroy, or desecrate cultural heritage sites. Several months beforehand, the company's major competitor in the market had sustained significant reputational damage after it detonated an aboriginal cultural heritage site in Western Australia, which raised public attention to the issue.

Fidelity's Stewardship Analyst and equity analyst covering the stock engaged with both the resolution's proponents and with company representatives. We participated in a group discussion with the proponents on the shareholder proposals and had 1:1 and group discussions with the company on the moratorium resolution. We then had an additional follow-up exchange with company representatives after the proponent published a letter indicating that aboriginal groups representing the traditional owners of the lands where the company operated were supporting the moratorium proposal, which was contrary to what we had been told during our engagement. The company denied this was the case and later confirmed this. Prior to our direct engagement on the shareholder proposal, our investment analyst had undertaken extensive research and engagement on the company's governance and risk management of cultural heritage sites as part of his coverage.

We recognise that the current W.A. Native Title Act provides insufficient protection for Native Title Holders and reform is needed, so we are pleased that the law is being redrafted. However, based on our research and engagement, we believe that the company's approach to relations with traditional owners goes well beyond what is currently required under the law. Moreover, the company has policies and systems in place which give us comfort that an incident similar to the one committed by its local competitor is much less likely to occur under its watch. We noted that the Native Title Holders of the lands where the company operates were not supporting the moratorium. When weighing the relevant risks, we concluded that imposing a blanket moratorium would be a disproportionate response, and a potentially disruptive one given the prevalence of areas in W.A. that could qualify as cultural heritage sites. We also recognised that the rightful Traditional Owners have an interest both in protecting their cultural heritage and in economic participation in the mining industry that operate on their lands. We concluded that the best available option was for both sides to continue vigilantly engaging under the existing agreements until a new legal framework is in place, and therefore decided to vote against the resolution.

The resolution was withdrawn by the proponents prior to the AGM after they reached an agreement with the company on changes to the principles underpinning the company's engagement with Traditional Owners under the current framework, its support for legislative reform, establishment of keeping places for Traditional Owners' artefacts, and others.

Banking

In the AGM notice, the bank announced that it was intending to replace the executive long-term incentive plan in anticipation of new rules from the Australian Prudential Regulation Authority (APRA) which were expected to cap the level of financial performance hurdles in such plans. The new incentive would link 50% of equity awards to relative TSR performance, with the remaining 50% granted without hurdles but subject to a series of underpinning conditions based on financial and non-financial considerations. Grant levels would be cut to reflect the greater certainty of reward, and the share release period would also be extended from four years to seven.

We engaged with the company for further clarification on how the board had settled on the final proposal and what other options it had considered. We were well aware of the regulatory context, having previously engaged with APRA on the proposed remuneration rules, and on reflection we concluded that the board's plan would be broadly acceptable were hard restrictions on financial hurdles to come into place. This conditional support notwithstanding, we did not feel that the proposed reduction in award grant levels adequately accounted for the greater certainty of outcomes under the new plan.

Therefore, we decided to vote in favour of the remuneration report to signal our tentative support for the new plan, but we voted against the CEO's equity grant to reflect our objection to the award quantum.

Both the remuneration report and CEO equity grant were approved at the AGM, though with a substantial opposition of c. 21% of participating shares.

Subsequently, APRA issued the final version of its new remuneration rules, which take a more principles-based approach than the draft rules did and do not contain a hard cap on financial hurdles in long-term incentives. We think this is a sensible outcome for shareholders and other stakeholders of Australian financial institutions.

Consumer Goods

A shareholder filed a non-binding proposal asking the board to publish a report on the company's efforts to eliminate deforestation in its supply chain.

Following our analysis, we decided to support the resolution because:

- The proposal addressed a material ESG issue which had been flagged as an area of concern by third party ESG ratings agencies;
- The company had received criticism over its palm oil sourcing and labour abuse in its palm oil supply chain, and had suffered a reputational hit for missing a deforestation target it had previously set; and

- The company's deforestations policies and practices are average but not industry leading.

The proposal was approved by a majority of 67% in spite of opposition by the board. In response to the voting result, P&G has stated that it will issue a report on its main website covering the actions it can take to reduce deforestation in its supply chain.

Distributors

We voted against the remuneration report because we did not think the board's decision to apply positive discretion to executive bonuses was appropriate in light of the company's receipt of wage subsidies in New Zealand during the year, as well as staff redundancies and a substantial capital raise the company had conducted to meet challenges it faced because of Covid-19. In July we had sent a letter to the company asking for executive bonuses to be cancelled if taxpayer support had been taken to meet wage costs during the year. We engaged with the company before voting, and acknowledged that there were some mitigating factors e.g. the CEO had taken a 30% pay cut when Covid-19 shutdowns occurred and the company had performed relatively well through the crisis to date. We nevertheless concluded that a vote against the remuneration report was appropriate.

The remuneration report was voted down at the AGM. Under Australia's two-strike rule, the company will be required to hold a 'spill resolution' on potentially removing board members if the remuneration report receives more than 25% votes against at next year's AGM.

Banking

A shareholder group submitted a non-binding proposal requesting that the bank disclose, in subsequent annual reporting, strategies and targets to reduce exposure to fossil fuel (oil, gas, coal) assets in line with the climate goals of the Paris Agreement, including the elimination of exposure to thermal coal in OECD countries by no later than 2030. The proponents argued that the bank was behind peers with regard to reducing fossil exposure. By contrast, the board stressed the bank's recently disclosed Climate Change Statement, which includes a goal to reduce the carbon intensity of its electricity generation lending portfolio and introduces new restrictions on thermal coal customers.

We supported the broad objective of the proposal, but engaged with the company prior to reaching our final voting decision. While we acknowledged the progress the bank had made with its new climate statement, we felt that there was still scope for improvement relative to peers and believed that supporting the resolution would appropriately signal this to the board. We therefore decided to vote in favour.

The proposal was rejected at the AGM, though it received fairly substantial support considering that it was not supported by the board (c. 28% of participating shares).

Important information

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