What is Fidelity International doing to manage climate risk?

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. But the impact on humanity will be so devastating by then that the cost will be irrelevant.

Fidelity International is aiming for decarbonisation in several ways:

- As an asset manager we have developed proprietary sustainability ratings, which we use to identify companies exposed to climate risk, whether physically or from increased regulation. We then engage with those companies in managing that risk and reducing direct and indirect emissions.
- We are a signatory of the UN Principles for Responsible Investment (PRI), a member of Climate Action 100+ and the Carbon Disclosure Project and a partner in the Climate Bonds Initiative. In addition, we are a supporter of the Taskforce on Climate-Related Financial Disclosures (TCFD) and in December 2020 we published our inaugural TCFD report.
- Fidelity is one of 30 founding investor signatories to the IIGCC Net Zero Asset Managers Initiative, which we consider to be an important milestone towards achieving the goals of the Paris Agreement. This initiative is a group of international asset managers committed to achieving net zero greenhouse gas emissions by 2050 or sooner.
- We have joined HRH The Prince of Wales' Terra Carta Sustainable Markets Initiative and have committed to adopting Stakeholder Capitalism Metrics released by the World Economic Forum (WEF), both of which were launched in Davos. The former provides a roadmap to building a sustainable future over the coming decade, while the latter provides a framework for unified and transparent environmental, social and governance (ESG) metrics based on four key pillars: people, planet, prosperity and principles of governance.
- We have set our own corporate target to achieve net zero carbon emissions across the company by 2040. In order to do this, we have set a range of short-term targets to be achieved by 2024. For example, we have committed to gain certification of our environmental management system, as well as reducing energy consumption, carbon emissions and waste by 25%.

Has Fidelity received advice from advisers on climate risk?

Yes. The Independent Governance Committee (IGC) and the Master Trust Board (MT) operate independently of Fidelity and hold the company to account on matters such as value for money and investment stewardship.

The IGC and MT members strongly believe that good stewardship is a key aspect of financial risk management and that it is also an important way to help ensure the long-term sustainability of investments. Environmental, social and governance (ESG) considerations are a central feature of investment stewardship, in respect to the way companies are managed.

The Workplace Investing business can draw on the substantial investment resources of Fidelity International for advice on building sustainability into its investment offering. Around the world Fidelity has approximately 200 investment professionals analysing research into ESG issues, as well as a specialist ESG team dedicated to monitoring ESG trends and engaging with the companies we invest in or whose funds we offer on our platform.

In addition, the IGC, the Master Trust Board and the Workplace Investing business seek external advice from independent consultants.

What are Fidelity's investment beliefs and policies in respect of climate risk?

You can find information on our Sustainable Investing Policy, Exclusion Framework and more on our website. Talking specifically about Workplace Investing, you can also read our WI Sustainable Investing Policy.

Has Fidelity carried out a review of advisers' and asset managers' climate risk competence?

We review the competence of all advisers and independent consultants we work with through robust procurement and selection processes and appoint new partners as necessary. Similarly, we monitor the asset managers whose funds we invest in, along with any that we are considering for our platform. Finally, the members of the IGC and MT receive any training that is necessary for their role. This includes guidance on holding Fidelity to account for the way the scheme is administered.

Has Fidelity assessed the exposure of investments, including any default funds offered to members, to climate risk, including by conducting scenario analysis?

We regularly review the sustainability of the funds on our platform and the carbon intensity scores using data from the independent investment analysis company MSCI. As a platform provider and fund manager, Fidelity is in the privileged position of having access to tools and resources that allow us to carry out in-depth analysis, including climate scenario modelling. To this end, we have also used Institutional Shareholder Services (ISS) to gain a comprehensive understanding of the climate risk factors our default strategy FutureWise is exposed to.

ISS uses a scientific scoring system that reviews the individual securities within a fund. This enables us to measure the exposure that a fund has to climate change all the way down to an individual security level. In addition, the ISS tools allow us to assess our alignment to the Paris Agreement. They have provided a useful starting point in assessing our current position and what we need to do to achieve our net zero goals.

We have adopted the Task Force on Climate-Related Financial Disclosures (TCFD) and produced an inaugural report for Fidelity. We plan on adopting this framework when looking more specifically at FutureWise.

We recognise that climate risk is not only important to us but to our members too and we are in the process of expanding our fund factsheets to include ESG fund ratings and quality scores, along with carbon footprint measures, again based on independent data from MSCI.

Has Fidelity set targets to assess and manage the exposure to climate risk?

We regularly review all the funds on our platform in terms of their exposure to climate risk. Our plans include adding a number of ESG ratings to the fund factsheets available to scheme members.

In relation to FutureWise specifically, our goal is to align the strategy's underlying investments to our overall initiatives on climate change. In practical terms, this means we will be working with our investment partners to set targets for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or earlier, with interim targets in place. We propose to achieve this by focusing on each of the strategy's component funds in turn.

How does Fidelity engage with investee companies in relation to climate change with specific targets?

As an asset manager, Fidelity seeks to actively address carbon risk within its own funds by engaging with its investee companies to encourage them to manage and mitigate climate risk. Fidelity believes that engagement is an effective mechanism for influencing corporate behaviour and management of carbon risk. We seek to achieve this through company dialogue, voting and collaboration with other shareholders and stakeholders. As such, Fidelity does not automatically exclude companies on the basis of their particular activities. Instead, we would look to engage with these companies to manage the risk involved.

In other words, Fidelity believes that acting as a responsible owner of companies can be a more efficient and direct way of influencing their climate strategy and protecting the long-term interests of pension scheme members. Indeed, it is clear that as we move towards a low-carbon economy, companies will require the support and engagement of long-term investors, such as Fidelity, to transition their strategies.

We should point out that the Workplace Investing business is not technically a shareholder in the funds that are available on its platform. It is a life insurance company, FIL Life, offering unit-linked funds, which invest in regulated funds. It is these underlying funds, managed by a range of companies including Fidelity, which are the shareholders. However, the Workplace Investing business works closely with these management companies. We expect them to outline how they engage with companies on ESG issues and to have a shareholder engagement policy in place, as required by the EU Shareholder Rights Directive II (SRD-II). In addition, we require them to measure the effectiveness of their strategy for engaging with companies in terms of how it benefits the end investors (including pension scheme members). We also encourage fund management companies to become signatories of the UN PRI and the UK Stewardship Code. You will find our Shareholder Engagement Policy here.

How does Fidelity report publicly in line with the recommendations of the Financial Stability Board's Task Force on Climate Related Financial Disclosures?

We published our inaugural TCFD report in December 2020. We plan to adopt this framework when looking more specifically at FutureWise.

Important information

Please remember that the value of investments, and the income from them, can go down as well as up, so you may get back less than you invest. The Investment Manager's focus on securities of companies which maintain strong environmental, social and governance ('ESG') credentials may result in a return that could, at times, compare less favourably to similar products without such focus. No representation nor warranty is made with respect to the fairness, accuracy or completeness of such credentials. The status of a security's ESG credentials can change over time. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to a Fidelity Adviser or an authorised financial adviser of your choice.

Workplace Investing

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