Fidelity Investments Canada 2020 Sustainable Investing Report

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Foreword by Andrew Marchese

Dear valued client,

Since its founding over 30 years ago, Fidelity Investments Canada has taken a long-term view, rather than focusing solely on short-term results. Helping clients save for retirement and other long-term investing objectives has always been at the core of our business. We remain deeply invested in proprietary research, bottom-up fundamental analysis, product innovation and our people, and maintain the same beliefs and practices that have allowed us to grow and succeed: a culture of integrity, a commitment to performance and a dedication to clients.

Increasingly, taking into account matters relating to how the activities and conduct of businesses affect the environment and society is integral to investment risk management and the outlook for prospective long-term returns.

We believe that the consideration of environmental, social and governance (ESG) issues is a rational and natural extension of the fundamental bottom-up investment approach that is the hallmark of our approach to investing. Evaluating these issues provides a more holistic view of the companies we invest in and a better understanding of all the various factors that can affect their business and overall fundamentals. Accordingly, we integrate financially material ESG considerations into the analysis conducted by our research team.

Additionally, we believe that engagement with investee companies can be a constructive way to exert a positive influence on corporate policies and strategies, achieve long-term sustainable outcomes and enhance investment return potential for our clients. Therefore, we will continue to seek to engage with the companies we own, and in so doing be a conduit for long-term value creation.

In keeping with our commitment, we are pleased to share for your consideration highlights of our engagement and proxy voting activities in 2020 in the following inaugural annual *Fidelity Investments Canada Sustainable Investing Report*.

Sincerely,

Andrew Marchese

CIO and Portfolio Manager
Fidelity Investments Canada

By Jenn-Hui Tan, Global Head of Stewardship and Sustainable Investing, Fidelity International

Introduction

Sustainable investing offers hope in a post-pandemic world.

Jenn-Hui Tan, Global Head of Stewardship and Sustainable Investing, leads the Sustainable Investing Team at Fidelity International, Fidelity Investment Canada's research-sharing, trading and proxy voting affiliate. This dedicated team of ESG specialists is responsible for maintaining the company's sustainability framework, providing in-depth insights on current and emerging ESG issues and supporting engagement activities.

Welcome to the inaugural annual *Fidelity Investments Canada Sustainable Investing Report*, in which we explore our engagements with investee companies during 2020. We also consider several issues, including how climate change is being addressed, and how COVID-19 has changed the way companies, investors and governments think about sustainability and what the future may hold.

COVID-19 and interest in ESG

Before the pandemic hit, interest in sustainable investing was growing in all regions of the world, and the biggest issue for many was the impact of climate change and how to address it. After COVID-19 put the brakes on global growth, it seemed possible that the rising tide of sustainable investing would ebb: some skeptics claimed that it was a bull market phenomenon, and unlikely to remain a priority when entire industries were struggling to stay afloat.

The truth could not be more different. COVID-19 has brought ESG issues to the fore with unexpected urgency. Chief among them has been the rise of the "S" in ESG, with a much greater focus on employee welfare and the societal responsibility of businesses in a global crisis. Priorities for corporations, households and governments have changed dramatically.

For example, as the pandemic swept through the world, luxury goods giant LVMH switched from making perfume to producing hand sanitizers; both use alcohol. Ford diverted airbag-manufacturing capacity to making face masks that may reduce the spread of infection. Meanwhile, in Australia, Qantas Airways leveraged its partnership with Woolworths to place furloughed workers with the retail giant, redirecting vital labour to where it was most needed.

Sustainability outperforms during the crisis.

These companies have redeployed their know-how and resources to help society, rather than to maximize short-term profit, often at their own cost. Companies that respond dynamically in this way are focused on protecting their brand and business, and should have the agility to seize new growth opportunities as the pandemic is brought under control.

A growing body of evidence indicates that companies with high ESG standards are more resilient, typically have a lower cost of capital and can offer higher-quality long-term returns. Both before and during the crisis, companies with higher ESG scores have outperformed, according to Fidelity research.[1] The analysis used Fidelity's own proprietary ESG ratings, rolled out over the past year, to assess global stock and bond performance during this short period.

During the extreme volatility in March 2020, with net outflows across financial markets globally, ESG funds continued to see steady inflows. From individuals to corporations and huge asset owners, investors are increasingly favouring companies that display positive social, climate and governance attributes.

1 *Outrunning a Crisis: Sustainability and market outperformance.*

Key ESG themes and looking ahead

Key ESG themes for 2020

In the wake of COVID-19, the world became a different place. While the emphasis on climate change persisted in many geographies, with calls for governments to "green" the recovery, many countries and companies were understandably focused on saving lives and livelihoods. In this context, our engagement with companies became ever more crucial to seeking to ensure that their business models were sustainable, in all senses of the word.

So for 2020, our climate priority was to work with companies to disclose Scope 1, 2 and 3 emissions (direct emissions from operating activities and energy use, indirect emissions related to the energy the company purchases and consumes, and all other indirect emissions that can be identified in the company's value chain), and to set measurable targets to achieve decarbonization.

We also sought to engage on specific social themes, such as employee welfare, and to understand how companies are pivoting their business models toward greater social purpose. We have created a best-practice guide for Fidelity portfolio managers and analysts to assist them when speaking to companies about how they are managing stakeholder relationships and maintaining board effectiveness as a result of the pandemic.

It was also important to find ways to address inequalities that opened up due to the pandemic and ensuing recession: stimulus packages typically benefit the owners of financial assets, not workers. Huge income disparities inevitably lead to abrupt rather than progressive change, which can be damaging.

Following a range of successful engagements in 2019, we continued to monitor how supply chains are changing as we move from a pre-COVID world, in which low-cost efficiency was paramount, to one in which resilience plays a bigger role. This could mean having manufacturers move closer to where customers are, and paying more for labour. Lastly, as COVID-19 forced us to live more of our lives online, with more use of facial recognition and artificial intelligence (AI), we focused on fresh ideas about digital ethics to hold global tech giants to account.

Looking ahead

This report was written at a time when the vaccine rollouts around the world were just getting underway, and the potential reopening of global economies was on the horizon. Corporate focus also seems to be shifting back toward pre-pandemic priorities, such as growth investment, shareholder returns and mergers and acquisitions. Nevertheless, COVID-19 and climate change are both planetary events that will continue to challenge the way we live. The response to the pandemic has been largely national or regional, not global. But the economic damage has also robbed many governments of the illusion that we can go on as we are. If necessity is the mother of invention, we are confronted today with the mother of all necessities.

Three ESG themes to watch for in 2021

Sustainable investing identifies themes that will grow in importance based on our needs as human beings. Among others, there are three of particular interest that Fidelity plans to monitor in 2021 and beyond: **digital ethics**, **climate and natural capital** and **employee welfare**.

Digital ethics:

Digital tools have become a lifeline for many during the pandemic, but they have also exacerbated economic inequality. This creates a divide between those who can access digital opportunities and those who can't, even within individual countries. It is therefore incumbent upon policy makers, companies and investors to make digital accessibility a priority in 2021 and beyond. In 2021, we will monitor the issues we believe to be the most crucial: data privacy, misinformation, online fraud, online welfare and ethical AI design. Regulatory action so far has centred on the first three, but we believe welfare and design will become increasingly important.

Climate and natural capital:

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, and the financial impact alone will be immense. We seek to help decarbonization efforts in several ways, including through the use of our proprietary sustainability ratings framework to identify companies exposed to climate risk, and participation in global programs such as the Climate Action 100+ initiative, which pushes large emitters toward more sustainable business models. 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.

Employee welfare:

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. 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. 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.

All of the themes above could be summed up as good corporate governance. To improve the sustainability of investee companies, Fidelity will engage on our core themes for 2021 and those raised by our analysts.

By Velislava Dimitrova,
Portfolio Manager, Fidelity International

Climate change in focus: 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 net-zero targets within 30 years.

And it will cost around US$144 trillion to achieve, almost seven times the annual U.S. GDP.[2] But the urgent need to decarbonize offers companies producing renewable energy and other low-carbon technologies the potential for decades of growth.

Around 37 billion tonnes of greenhouse gases were emitted in 2019.[3] Then came COVID-19, and global lockdowns that saw factories shuttered, aircrafts 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% decrease in global CO_2 emissions in the first half of 2020.[4]

Getting started

Unfortunately, there is no silver bullet that offers a 100% 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% (compared with fossil fuel plants).[5] Switching to electric vehicles will more than halve cradle-to-grave emissions from cars, while green hydrogen fuel cells can decarbonize heavy-duty trucks by 87%.[6] The meatless burger reduces emissions by 90%, and lab-grown meat by 78%. Insulation alone can halve the emissions associated with buildings.[7]

Many technologies, such as wind and solar, are economical even 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 the decarbonization targets set by the Paris Agreement. So even if valuations among wind and solar companies look expensive today, we believe long-term growth expectations for many will prove more than justified.

2 Goldman Sachs, *Carbonomics*, October 2020.

3 "CO_2 Emissions Will Break Another Record in 2019." *Scientific American*, December 2019. Accessed at www.scientificamerican.com/article/co2-emissions-will-break-another-record-in-2019.

4 "Near-Real-Time Monitoring of Global CO_2 Emissions Reveals the Effects of the COVID-19 Pandemic." *Nature News*, Nature Publishing Group, October 2020. Accessed at www.nature.com/articles/s41467-020-18922-7.

5 Fidelity International estimates using Siemens/Vestas data.

6 Ben Sharpe, *Zero-emission tractor-trailers in Canada*, International Council on Clean Transportation, 2019.

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

Carbon prices will rise. The World Bank estimates that carbon prices must be 2.5 to 5 times higher by 2030 to achieve the emissions reduction goals of the Paris Agreement. 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, encouraging a switch to cheaper imports from countries with no carbon prices. 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.

As part of its pledge to achieve carbon neutrality, China is set to roll out a national cap-and-trade CO_2 scheme that has been running as a pilot since 2014. Its impact has been limited so far due to a low carbon price, but this should change as prices rise. Moreover, a nationwide scheme in China could include sectors that account for an estimated 20% of global emissions by 2030, creating the potential for large-scale decarbonization. The U.S. may follow suit under the new U.S. administration. The E.U. cap-and-trade program 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.

Decarbonization at scale creates significant opportunities. Existing low-carbon technologies could benefit most from the investment needed to achieve the first 50% of decarbonization – $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% lower carbon footprint than onsite data centres),[8] 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 per year in new solutions is needed to close the gap.[9] Some, like green hydrogen and carbon capture, are still in the early stages of development; others have yet to be invented. Many will need renewable power.

The average annual investment for solar and wind alone will top $400 billion per year (on a 1.5°–2.0° pathway) for decades.[10] Plus, if solar and wind, backed up by battery and green hydrogen storage, replace all present-day thermal generation, benefit from rising demand from a growing population and an emerging middle class, and powering the global electric car fleet, will increase the demand for these resources to roughly 17 times the current levels.[11]

That is before accounting for electrifying heating in people's homes, 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 the current levels.[12]

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% is green (i.e., produced using renewable power).[13] But if projections that green hydrogen could meet a quarter of global energy demand by 2050 are correct,[14] its production could increase to around 700 million tonnes.

The decarbonization 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-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.

8 *Microsoft Cloud Carbon Study,* 2018.

9 Goldman Sachs, October 2020. This estimated cost of decarbonization prices emerging technologies such as green hydrogen at their current rates, but as they are more widely adopted, costs should fall.

10 BP estimates and Bernstein analysis.

11 BP estimates and Bernstein analysis.

12 IEA. *Renewables 2020* – Analysis. 2020. Accessed at https://www.iea.org/reports/renewables-2020.

13 Wood Mackenzie. *The Future for Green Hydrogen*, October 2019. Accessed at https://www.woodmac.com/news/editorial/the-future-for-green-hydrogen/.

14 Bloomberg, *New Energy Finance*, October 2020.

Fidelity Analyst Survey 2021: Race is on to achieve net zero

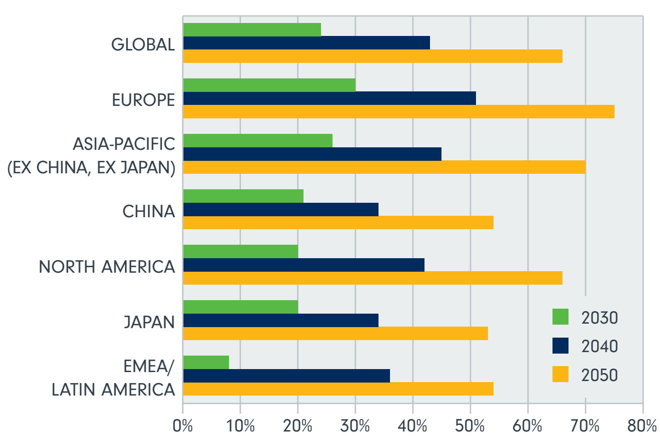
The 2021 Fidelity Analyst Survey is based on the views of our analysts, who conduct thousands of meetings with corporate decision makers each year, and the results provide a barometer of company sentiment and coming trends.

The race to net zero is on. Almost a quarter of all global companies assessed by Fidelity report they will be carbon neutral by the end of this decade, according to Fidelity analysts. Looking further out, analysts believe that 43% of firms will get to net zero by 2040, and 66% by 2050.

To achieve this, companies must slash Scope 1, 2 and 3 emissions – the direct emissions from a company's operations, the indirect emissions related to the energy the company purchases and consumes, and any other indirect emissions that can be identified in the company's value chain. Looking further out, analysts believe that 43% of firms will get to net zero by 2040, and 66% by 2050.

Our forecasts are based on companies' current plans, so we expect them to be revised higher in the coming years as regulations tighten, new chief executives take the reins, and robust ESG practices become a baseline for attracting investor capital.

Chart 1: Europe leads the race to net zero, but all areas may go faster.



This chart shows responses to the question, "What percentage of your companies do you estimate will be carbon neutral (Scope 1, 2 and 3) by 2030, 2040 and 2050?"

We believe European companies are currently most advanced, with our analysts estimating that 30% of firms will be carbon neutral by 2030. This highlights how well established the sustainability theme is in the region. As in the 2020 Fidelity International Analyst Survey, Europe once again has the highest proportion of analysts reporting growth in ESG activity at a majority of companies. "I don't have a company call anymore where ESG is not mentioned," says one European materials analyst. "On the odd occasion I don't ask a question about it, they will always bring it up themselves at the end of the meeting."

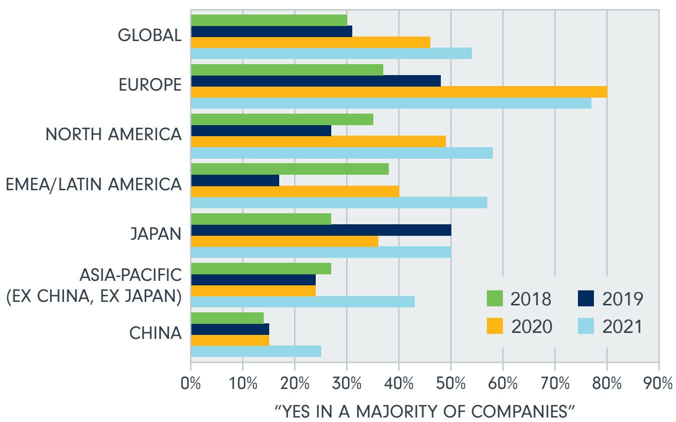
U.S. could close the sustainability gap with Europe.

Other regions could eventually close the gap with Europe. The new U.S. administration has been elected on an ambitious climate platform that seeks to decarbonize U.S. power generation by 2035.

And sustainability issues continue to climb the agenda at North American companies. The proportion of analysts reporting an increased ESG focus at a majority of their companies has risen to 58%, up from 49% last year. The new U.S. administration changes will give these efforts a boost, but there is still some way to go. "ESG awareness in the U.S. still considerably lags Europe," says one financials analyst covering North America; "The gap has further widened in 2020."

This may reflect a recent U.S. rule change that discourages investment managers from considering non-financial factors, such as ESG, in decision making. Expectations are high that this will change, and that sustainability considerations may become a specific part of managers' fiduciary duty to their clients.

Chart 2: Focus on ESG continues to rise everywhere.



The chart shows responses to the question, "Have you seen a growing emphasis among your companies to implement and communicate ESG policies in the last year?"

Of Fidelity analysts covering China, 25% report a growing emphasis on ESG at a majority of their companies; for the three previous years the level had been stuck at around 15%. The increase may be an early reflection of China's 2060 net-zero target.

There is work to do. For example, 68% of our China analysts expect no increase in the level of corporate disclosure related to the UN Sustainable Development Goals over the next 12 months, compared to an average of 34% of analysts who cover other regions. "ESG matters generally aren't front of mind for my companies," says one China industrials analyst. "Disclosure is limited, and it's only when you specifically ask that they engage on it."

This confirms Fidelity's research showing that Chinese companies do respond to investors who raise ESG issues, but that sustainability reporting in the country is not as much of a mainstream activity.[15]

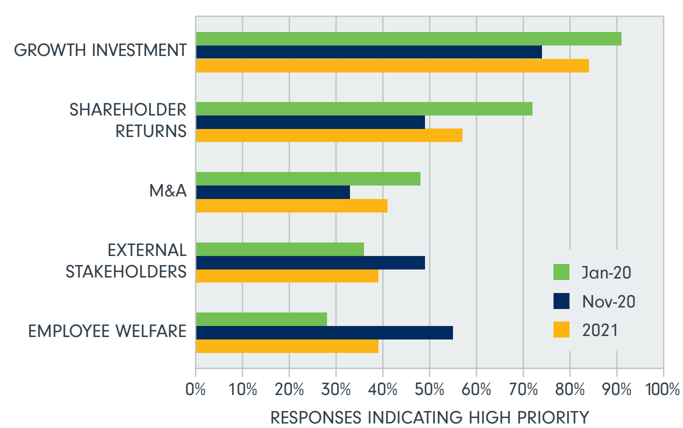
Corporate focus reverts to pre-COVID priorities.

The past year has radically reshaped many things, companies included. Over that time, we have been tracking shifts in corporate priorities. In November 2020 we asked our analysts to rank their companies' priorities and compare them with those of January 2020. Their responses revealed that social factors such as employee welfare and external stakeholders had become more important during the pandemic.

In the 2021 annual survey, we asked our analysts to rank the same priorities for their companies over the coming year. The results show corporate focus in 2021 shifting back toward the pre-pandemic priorities of growth investment, shareholder returns and mergers and acquisitions, while social factors are sliding down the corporate agenda.

This suggests that companies' ESG strategies are strongly influenced by changes in government policy and investor behaviour, as well as the current discourse. Environmental factors are likely to take centre stage again among ESG considerations as the COVID-19 crisis recedes, but the survey suggests social issues will continue to matter, not least as climate-driven risks start to have a bigger impact on populations and lay bare social divides.

Chart 3: Employee welfare becomes less of a priority.



The chart shows responses to the question, "What do you think will be the top priorities for your companies over the next 12 months?"

15 *Building Solid Foundations*, Fidelity International Stewardship Report, 2020.

By Jenn-Hui Tan, Global Head of Stewardship and Sustainable Investing, Fidelity International

Engaging with companies matters even more after COVID-19.

There is a lot to celebrate in the results of this year's Fidelity Analyst Survey 2021 – and a lot to be concerned about.

Many companies are starting to take their carbon emission targets seriously, with two-thirds aiming to become carbon neutral by 2050. Businesses in North America and China are becoming more focused on ESG issues, closing a long-standing sustainability gap with Europe. Our job as active investors will be to engage with our companies to seek to ensure these commitments ripen into outcomes.

Regulatory change is a key driver. The survey shows the real-world impact of China's 2060 net-zero carbon emissions target and a change of leadership in the U.S. administration. Where the law goes, companies follow.

However, progress is uneven. Regulations differ across jurisdictions, and don't always cover the full range of sustainability factors that we look at as investors. Employee welfare, a top priority at the end of last year, is now losing ground to the pre-pandemic concerns of growth investment and mergers and acquisitions.

While some of the results are encouraging, then, they also show where we will have to hold companies' feet to the fire on issues of sustainability as the lockdowns ease.

Engagement and proxy voting at Fidelity

Why engagement matters

Many investment managers claim that engagement is important, but at Fidelity it is critical to the way we think and act. First, active engagement forms an integral component of our investment strategy. There is now plenty of evidence that non-financial risks – such as those related to ESG principles – can have a significant financial impact on a company over time.

Second, we take our role as a steward of client assets seriously, both on behalf of our clients and because we, like the companies in which we invest, have a broader duty to the communities and societies in which we operate. As a result, we believe that continual in-depth engagement is the best way to exert a positive influence on corporate behaviour. When we make investment decisions, we think carefully about how we can engage with the companies we own to create better results for a range of stakeholders, including employees and suppliers, and to build long-term social and corporate value.

There are several ways we engage with companies. It can be through direct dialogue with management and directors or through the efficient use of proxy voting and shareholder resolutions to effect change within a company. This does not always take place in isolation. From time to time, we may engage with companies in collaboration with other shareholders.

Engaging with managements enables us to raise any concerns we may have about a company's impact on the environment, its governance structure or how it affects society. It is only through this process that we can identify the risks and opportunities that do not show up on a company's balance sheet.

The Sustainable Investing Team works with portfolio managers and analysts to identify the highest-priority issues and engagement objectives, while also keeping track of progress. Companies may be selected for engagement based on a number of different factors, including an ESG rating, whether proprietary or third-party, or a company's exposure to controversies or specific business risks.

The engagement and proxy voting process at Fidelity

IDENTIFYING ENGAGEMENT OPPORTUNITIES

We maintain an ongoing dialogue with the management of investee companies. Formal meetings involving both portfolio managers and analysts are held with investee companies at least twice a year. In addition to these regular engagements, there are a variety of other opportunities for ad hoc engagements, including

- Responding to a controversy or adverse event (e.g., evidence of poor governance).
- Firms flagged by our analysts during the proprietary sustainability rating assessment as good candidates for engagement (e.g., exposure to sustainability risks).
- The Sustainable Investing Team may conduct a thematic engagement on a particular sustainable investing issue (for example, supply chain management).
- Issuers may request engagement on a specific governance or corporate event (e.g., mergers and acquisitions) prior to its announcement.
- Through involvement with a third-party engagement forum (e.g., Climate Action 100+).

HOW WE ENGAGE

Once we have identified an engagement opportunity, we believe the best approach is constructive dialogue with companies to explain our beliefs and expectations, and to encourage shifts in long-term strategies. Because of Fidelity's reputation for a fundamental and long-term approach to investing and our long-standing relationships with issuers worldwide, we believe we are well placed to use our influence on issuers to promote more sustainable practices. We therefore believe that engagement is often a better way for us to drive change than simply excluding companies from our portfolios.

Our engagement process is designed to be well defined and transparent, with the following components identified at the outset:

- key issue areas: the themes for which the company needs to demonstrate improvement (e.g., climate change)
- objective: the ultimate desired outcome from engagement (e.g., reduced CO_2 intensity)
- milestones: indications that the company is making efforts to achieve the objective we have communicated (e.g., setting a carbon reduction target)
- key performance indicators (KPIs): it is important that there are measurable KPIs set against the milestones
- timeline: the timeframe in which we can reasonably expect a company to improve
- status: a point-in-time measure of progress (for example, no progress vs. some progress vs. success)

WAYS WE ENGAGE WITH COMPANIES

Company meetings and formal correspondence	Shareholder resolutions	Collaborative engagement	Proxy voting	Public policy

MONITORING PROGRESS

Monitoring the progress of engagements is as important as initiating them, to assess change and success against milestones and objectives. Our analysts, portfolio managers and sustainable investing specialists document all engagements with issuers in a centralized application platform that is available to the entire investment team. This transparency allows the team to learn across sectors, themes and asset classes, enriching our depth of knowledge. Engagements can have various timeframes depending on the materiality and urgency of the ESG topic in discussion, and the outcomes (or lack of outcomes) from our engagements are reflected by our analysts in our sustainability ratings framework.

THEMATIC ENGAGEMENT

In addition to engagements with individual companies, we also identify sustainability issues that are relevant to multiple companies or to sectors. This is undertaken through our thematic engagement program, which aims to accelerate progress on priority ESG issues affecting multiple companies in which we have invested. Each theme is underpinned by specific objectives and milestones that are tracked over time. The ESG thematic engagement strategy is focused on sustainability themes where we feel there is a strong investment case for improved performance; for instance, ESG issues that exhibit high financial materiality or are subject to strong legislative momentum. Our 2020 themes are highlighted below.

ENGAGEMENT THEMES IN 2020

Financing climate change	Animal protein	Supply chain sustainability	Responsible palm oil	Corporate sustainability reporting

HOW WE VOTE

The exercise of ownership rights, including voting and engagement, can improve the performance and lower the risk of investments over time. We seek to vote all equity securities in which we are invested wherever possible. On rare occasions we may determine not to submit a vote, where in our view the cost of voting outweighs the associated benefits. We will also take account of the particular circumstances of the investee company concerned and of prevailing local market best practices. Our approach and policy with regard to the exercise of voting rights are in accordance with all applicable laws and regulations, as well as being consistent with the respective investment objectives of the various portfolios.

The Sustainable Investing Team is responsible for monitoring possible conflicts of interest with respect to proxy voting. In instances where a fund holds an investment in more than one party to a transaction, we will always act in the interests of the fund. When there is a conflict with our own interests, we will either vote in accordance with the recommendation of our proxy advisors, Institutional Shareholder Services (ISS), or, if no recommendation is available, we will abstain or not tender a vote.

We encourage boards to consult with investors in advance rather than risk putting forward resolutions at general meetings that may be voted down. Subject to the size of our investment, where our views differ from those of the board, we will seek to engage with the board at an early stage to try to resolve differences.

2020 engagement and proxy voting highlights

The engagement and proxy voting data and examples provided in this report relate only to assets managed by Fidelity (Canada) Asset Management ULC (which was amalgamated into Fidelity Investments Canada ULC on January 1, 2021) during 2020.

Engagement and proxy voting summary for 2020

ENGAGEMENT SUMMARY

Over the course of 2020, we actively engaged with 107 companies on ESG issues. This included related one-off meetings or conference calls with board chairs, independent directors and senior advisors. Over the same period, our team of analysts raised a host of material issues with the companies they cover, in over 2,100 meetings.

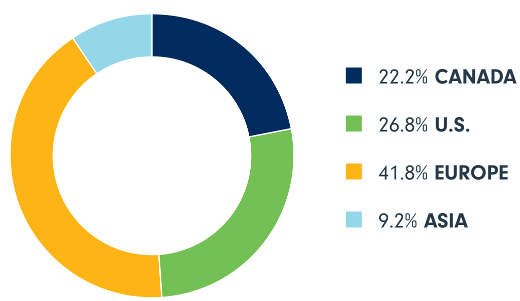
100+
Companies actively engaged with

450+
Shareholder meetings at which we voted

2,100+
Meetings conducted with companies

Engagements were carried out across a number of different regions: 22% of meetings were based in Canada, 27% in the U.S., 42% in Europe and 9% in Asia.

ESG-related engagements by region



PROXY VOTING SUMMARY

The Sustainable Investing Team analyzed 456 company meetings in 2020 (5,349 voteable items) and the topics that were to be voted on. The following tables show a geographic breakdown of votes by region for the reporting period and an overview of how Fidelity voted on different topics.

Table: Votes against management by category and region

Category	Canada	U.S.	Europe	Asia	Other*	Grand total
Board	9	9	12	10	0	40
Capital structures			10		0	10
Remuneration	22	37	57		2	118
Routine business	2		13	2	0	17
Shareholder proposals	6	58	8		0	72
Strategic/restructuring				1	0	1
Takeover related	11			1	0	12
Grand total	50	104	100	14	2	270

*Other includes Middle East and Africa, Oceania and the rest of the Americas.

Fidelity voted in support of management on all resolutions at 67% of the meetings that were analyzed. Fidelity voted against management on one or more of the resolutions submitted at 33% of the meetings analyzed. Fidelity voted its holdings on at least one or more of the resolutions submitted at all voteable meetings in 2020.

% of meetings with at least one vote against management

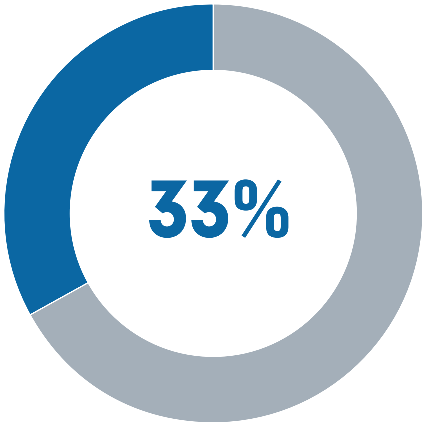
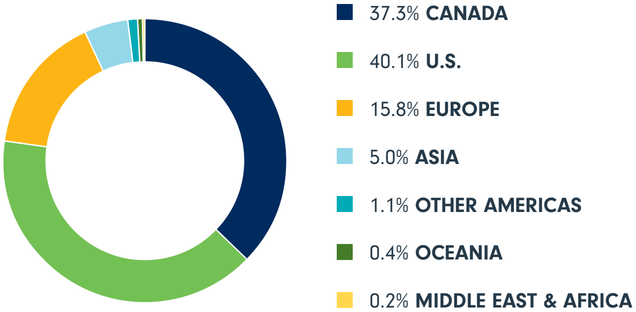


Table: How Fidelity voted across different regions (by number of voteable items)

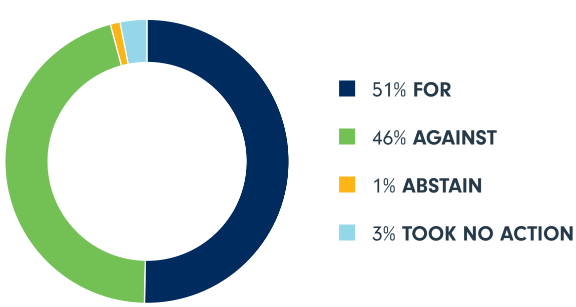
	With management	Against management	Abstained**	Withheld**	Took no action	Grand total
Canada	1,907	40		10	11	1,968
U.S.	1,848	100		4	4	1,956
Europe	1,043	83	17			1,143
Asia	215	14				229
Other*	51	2	0	0	0	53
Grand total	5,064	239	17	14	15	5,349

*Other includes Middle East and Africa, Oceania and the rest of the Americas.
**These instances highlight times when we abstained or withheld again management's recommendation.

Summary of voting meetings by region



How we voted on shareholder proposals



2020 engagement and proxy voting case studies

Active ownership is extremely important to Fidelity, both as a steward of client funds and as an active investor. Engagement and voting are tools we use for working with companies to help them pursue policies that lead to sustainable returns and increase value for a broad range of stakeholders. The following section provides detailed examples of some of our engagement and proxy voting activities undertaken in 2020.

Engagement case studies

NORTH AMERICA

Canada: Transportation company

Theme: climate change

As part of the company's annual shareholder engagement, the analyst held a call with members of the board and the chair of the risk and sustainability committee. Among other topics, we discussed the company's approach to climate change. Climate change is already affecting the company's assets. The company is conducting scenario analysis to inform future strategies for mitigation and adaptation. The company has enhanced its disclosure over the past year, conducted an inventory of Scope 3 emissions and further committed to publish disclosure in line with the TCFD (Task Force on Climate-related Financial Disclosures) recommendations in 2021. The company also committed to adopting a science-based emissions reduction target within the next 18 months. While new technologies, including batteries, hydrogen and hybrid vehicles, are being explored, these are not viable yet. We encouraged the company to consider the potential of tying variable executive remuneration to such targets.

Canada: Mining company

Themes: environmental sustainability, climate change

Members of the investment team, including the equity analyst and sustainable investing analyst, engaged with the mining company on sustainability issues. While the company has been involved in several environmental and social controversies, it considers most of them are now legacy issues that the company has sought to address. It has implemented a new sustainability strategy that should strengthen its licence to operate. Some of its foreign operations remain controversial. The company has put a number of plans in place, however, to reduce the volume of sediments that go into rivers.

Among other topics, we also engaged on the company's efforts to reduce carbon emissions. A member of the company's board 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, to move away from legacy coal plants and to meet its 10% greenhouse gas (GHG) emissions reduction target (compared with 2018 levels) by 2030. The company supports the TCFD (Task Force on Climate-related Financial Disclosures) recommendations and will be updating scenario analysis over the course of 2021.

Canada: Food retailing company

Themes: board composition, executive pay, health and safety, ESG reporting

In October, Fidelity equity and sustainable investing analysts and other members of the investment team met with company representatives to review governance and other sustainability topics. The company requested feedback on how Fidelity views board renewal (term and age limits), representation targets and ESG analysis.

We confirmed that Fidelity views term limits favourably, to maintain board member independence, but we do not suggest an absolute age limit. The company currently has 31% female representation on the board, which is in line with Fidelity's preference for at least 30%. The company acknowledged that it may evaluate other areas of board diversity.

Management compensation in the LTIP (long-term incentive plan) is currently linked to ROE targets and EPS growth relative to a peer group. They have discussed the possibility of integrating ESG-related metrics into management compensation, but there is still some uncertainty as to which ESG metrics are the most relevant.

The company previously released a report with ESG-related targets for the 2016–2020 period, but COVID-19 has delayed the review of these targets to incorporate a new five-year plan. The company relies on an internal audit to manage environmental and social risks along the supply chain. Key Fidelity 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: the company's food waste efforts look good, but in the future perhaps it can stretch its packaging targets more.

We also discussed the impact of COVID-19 from an ESG perspective. The board believes that the crisis has demonstrated the strength of the company's leadership team. During COVID-19, the company was considered an essential service and suffered no store closures. Worker safety was supported by having 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, the company felt it had become a rallying moment that improved relationships with unions, with everyone focused on remaining open and keeping people safe.

Canada: Industrial company

Themes: sustainability strategy, health and safety, environmental and social impact of operations

A Fidelity sustainable investing analyst, equity analyst and two equity fund managers held a call with the company's CFO to discuss the company's approach to sustainability, with a specific focus on how the company expects this strategic element to develop in the near future.

The company is currently dedicating significant resources to ramping up its ESG-related disclosures and progressing on its sustainability strategy. It informed us that it is in the process of hiring a senior sustainability expert who will lead the work in this area, with an important focus on improving data collection. The company also told us that it expects to set KPIs and targets in the short term.

We touched upon the company's poor ESG rating from third-party agencies, and it recognized that it still has work to do with regard to disclosure. The company did express concern that third-party providers may lack an understanding of their business model, and sometimes don't engage to validate their findings.

One of the key areas of focus for the company is health and safety, because the company believes it is extremely important to embed a safety culture within the organization. Since installing cameras for all employee drivers, the company has seen a reduction in injury rates, and this has also allowed it to identify key areas to tackle. To exemplify the success it has had in this area, it told us that when it bought another company a few years ago, it noticed that its safety records were four times worse than the company's own, but in a matter of a couple years, by embedding its own safety culture in the new organization, the company was able to bring injury rates down and align them to its own.

U.S.: Financial services company

Themes: COVID-19, climate change

Fidelity held a conference call with the company to discuss its sustainability approach and disclosures.

On climate change, the company said that it has put together a cross-functional group to look at the feasibility of setting science-based targets, although it is not planning to be a first mover in this space. It discussed its ESG due diligence framework and its ESG engagement with clients and other stakeholders. The company has ceased funding companies that derive a significant portion of revenues from mountaintop-removal mining, and it has reduced exposure to the coal sector generally, partly as a result of its stakeholder engagement.

From an operational standpoint, the company was relatively well positioned to deal with the impact of the COVID-19 crisis. It said that it was one of the few companies equipped for its call centre to work remotely, and its branch employees are working on a week-on, week-off basis. It has not furloughed any employees.

From a corporate social responsibility perspective, the company is shifting some of its focus to social justice-related initiatives, having pledged significant funds to economic empowerment initiatives for African American and low- to moderate-income communities.

U.S.: Technology company

Themes: climate change, environmental sustainability, board composition

In December, our sustainable investing analysts engaged with the company in a Q&A to get an update on its ESG initiatives. We reviewed some of the key points in its response to COVID-19, which is led by management and overseen by the board. The main aspects of their focus include employees (the vast majority working from home), customers (teaming with other companies on analysis and equipment) and communities (PPE for health care workers and a $50 million pandemic response tech initiative).

The company provided us with an overview of its business transformation as a backdrop for its approach to sustainability. Among other things, it aims to include reducing energy in data centres and promoting sustainable PC design. While data transformation opens up opportunities, it also presents challenges. The company confessed that one of its challenges is the need to continue driving the pace of reduction in emissions while continuing to grow (it has reduced emissions by 30% over the last 20 years).

The company has recently set and released its 2030 ESG goals. The goals, which it believes to be ambitious, include targets for employee wellness, supply chain human rights, diversity and inclusion among its workforce and suppliers, and accessibility. The company aims to achieve 100% renewable energy use across its global manufacturing operations, driving an additional absolute 10% reduction in Scope 1 and 2 emissions. It is 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. Eight new independent directors (on a board of ten) have been brought on since 2016, and currently the board has 30% female members and 30% people of colour. 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. In its own programs, the company has focused on middle-school girls in STEM, because that is the age at which female participation tends to fall off. The company has also implemented an AI program for young people, which it has piloted in ten countries; the plan is to reach 30 million individuals by the end of this decade.

U.S.: Technology company

Themes: data privacy, AI issues, ESG reporting

In December, Fidelity joined a group investor sustainability call hosted by the company with questions gathered in advance and information given in a presentation format. Although this is among the least interactive forms of engagement, it was nonetheless helpful to hear from the company on some key ESG issues. The main topic was a brief update on governance issues, along with a considerable discussion of data privacy and AI issues.

Focusing on data privacy, the company believes it is a leader in transparency on data privacy, and that privacy is a core value "built into everything we do." Its 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). The company explained that it supports smart data privacy legislation and regulation.

The company answered questions regarding how it viewed risks relating to regulation, bias in AI and facial recognition. The CEO is on record supporting regulation. It believes GDPR (general data protection regulation) is a strong governance foundation. It strives to build fairness – one of its core AI principles – into AI design.

In response to the question of whether the company would publish an ESG report compliant with SASB, the company representatives explained that it does provide numerous sustainability-related reports (albeit in various forms and on different parts of its website). It boasted of being on the CDP "A list" for six consecutive years, and the company believes that this reporting addresses TCFD (Task Force on Climate-related Financial Disclosures) disclosure requirements.

U.S.: Internet services company

Themes: ESG framework and reporting, governance, environmental sustainability

In December, Fidelity equity and sustainable investing analysts met with the company to engage on its new formal ESG program, established in 2020. The company completed a materiality assessment in August 2020, and has begun engaging with scoring companies, including MSCI, ISS, etc., with the goal of ending 2020 with a prioritized ESG framework and issuing its 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 (e.g., MSCI upgraded it twice).

The company has focused, among other things, on improving its 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 that comprises functional leaders across the company. The nominating committee also advises the board on ESG matters. Board features and compensation metrics are aiming for best practices. For example, eight of the nine 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 U.S. 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 its early environmental initiatives, although these are at a less robust stage of development than those connected with data security, data privacy and cybersecurity. The environmental efforts seem fairly narrow and general, mainly involving gathering information and disclosing business-as-usual activities. We suggested that although this is a good start, the company would ideally need to quantify the data and set quantifiable targets. The company was keen to explain its data security and privacy "posture," detailing the various approaches and methods it uses, along with five separate assessments it has had made to attest to the security of its IT environment.

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

ASIA

Japan: Chemicals company

Themes: climate change, ESG reporting, governance

Fidelity's Sustainable Investing Team engaged with the company in January and discussed its low ESG score and possible improvement plans. We pointed out that although it has succeeded in providing greater added value to products in the past ten years, the improvement hasn't been reflected sufficiently in its share price because of some issues relating to the company's low ESG score. The company admitted that the low score is mostly due to its poor disclosure on chemical safety and carbon emissions, top managements' reluctance to have a dialogue with investors and some issues regarding corporate governance. It promised to make serious efforts to deal with the issues. In March, we had a meeting with the CEO, which was his first-time meeting with investors, and once again encouraged improvements in ESG disclosure.

Korea: Auto components company

Themes: governance, sustainability, supply chain management

The Sustainable Investing Team and the investment team kick-started our engagement with the company by emailing a list of questions to its investor relations team. The company provided a detailed written response that indicated there had been some meaningful changes on the board, with the addition of two foreign directors in March last year. These changes include the establishment of a governance committee and a remuneration committee, a requirement that the governance committee review major transactions before the board, the provision of meeting notices and detailed materials four days before a board meeting to board directors and the provision of proper induction programs for its independent directors.

The company's sustainability management is focused on domestic operations, even though the company has significant operations overseas. Additionally, the carbon reduction program is designed to match, rather than exceed, the government target, and the action plans to achieve the targets lack details. Domestic waste management is strong, although it also seems mostly driven by government regulations. Management of labour issues along its overseas supply chain should be reviewed. There is only a supplier code of conduct provided to all suppliers, and no effective means for enforcement. We plan to follow up on these concerns and provide our suggestions as to how governance practices can be further improved.

EUROPE

U.K.: Financial services company

Theme: climate change

Fidelity's banking analysts and members of the Sustainable Investing Team engaged with the company on its general approach to responsible banking, and specifically a climate change-related shareholder resolution that had been brought forward by Share Action. This engagement has gone through multiple stages, with concurrent developments by the company in response to Share Action's proposal. The first meeting focused on the company itself, discussing its ESG objectives and approach, while subsequent meetings (this time with the chair) were geared toward the new climate change plan developed by the company. The bank has taken significant steps to meet the requirements of the Share Action proposal, responding with its own proposal on climate change, which is similar but features some notable differences. The result is a significant move forward by the company.

U.K.: Mining company

Themes: climate change, COVID-19, executive pay, governance

A Fidelity sustainable investing analyst, fundamental analyst and senior governance advisor held a conference call with the company's chair to discuss the operational impact of COVID-19, Scope 3 emissions, updates to executive remuneration and board composition.

The chair does not expect the company to be hit too hard operationally. It is experiencing delays at one of its projects in Asia. The chair also expects to see certain supply chain issues over the coming months, with the delay of certain components having a knock-on effect on the company's projects.

We also discussed the company's ambitions with regard to reporting of Scope 3 emissions data and stating potential reduction targets in this area. The chair affirmed that more proactive steps are being taken, but still raised some doubts about setting targets for something that the company can't control: the bulk of its Scope 3 emissions are produced by its customers through the iron smelting process. What the company is currently doing is trying to collaborate with steel manufacturers to make the smelting process less carbon intensive. The chair hopes COP26 (the United Nations Climate Change Conference) will provide more clarity on the way forward in making a transition to low carbon. The company is already advanced in its TCFD (Task Force on Climate-related Financial Disclosures) reporting, also breaking down disclosure by assets, which is a market-leading approach.

A new remuneration policy will be put in place in 2021. The chair expects long-term incentives will continue to be linked to total shareholder return, and that new ESG metrics will be part of the short-term incentive portion of remuneration. Additionally, the chair informed us that there will be three new board members coming on this year. The nomination committee did a lot of work in selecting the right profiles, with over 200 CVs analyzed, and was able to select skills that the board believed were really needed at this time (geopolitics, technology).

Italy: Financial services company

Themes: sustainability strategy, ESG opportunity, human capital, supply chain management

A Fidelity sustainable investing analyst and a portfolio manager had a video call with the company to discuss several sustainability initiatives implemented over the course of the last 12 months. The company has been working extensively to structure, implement and execute its sustainability strategy. It said that a big focus has been on targeting areas of weakness as identified by the main data providers. The company highlighted that engagement with investors and rating agencies had helped shape its materiality analysis and sustainability strategy.

In the past six months, the company has been focusing on strengthening its human capital management, through increased training programs and satisfaction monitoring; on combating bribery and corruption, with several new policies and training programs already in place; and on important certifications such as ISO 27001. Diversity developments also became a priority, with 60% of last year's hires being female. The company is also in the process of setting targets for gender diversity. The development in the human capital area has brought positive results, with the employee-wide satisfaction survey showing an improvement from 80% to 86% YoY.

A recent area of focus has been the supply chain, with the introduction of ESG criteria for assessing suppliers, although the company has limited risk in the area. It has leveraged its extensive database to create a software on SMEs to develop this supply chain screening tool, and it is also planning to commercialize it.

The most interesting development, from an ESG opportunity perspective, is the introduction of a proprietary ESG offering. The company is building an ESG score and plans to integrate it within its existing offering.

On the environmental side, the company has been looking at managing and reducing its own Scope 1 and 2 emissions, which are already low due to the nature of the business. The company is focusing on two main areas: purchase of electricity from renewable sources and decarbonizing its fleet of vehicles for employees. The company is also working toward assessing its Scope 3 emissions and establishing a forward-looking reduction target.

Switzerland: Mining company

Themes: climate change, executive pay

Fidelity held two ESG-focused meetings with the company in the first quarter that included the participation of the company's chair and its head of sustainability. Fidelity's internal sustainability rating highlights risks related to the company's coal assets, health and safety issues and community relations; therefore, the meetings focused on these issues. During the meeting with the chair, which was focused predominantly on the adoption of a new director of remuneration policy, Fidelity encouraged the board to link a significant portion of management incentives to material ESG issues. We also discussed the group's coal strategy and risks related to financing and capital raising.

Proxy voting case studies

U.S.: Financial services company

Themes: climate change financing, governance

Fidelity voted in favour of two shareholder proposals at the recent annual general meeting of this company.

We supported the separation of roles between chair and CEO, because we believe this is generally a better governance arrangement. Moreover, this proposal was non-binding and stated that the separation of the roles could occur at the time of the next CEO transition; therefore, the company would not have been required to implement any immediate change.

Additionally, we voted in favour of a proposal requesting the company to publish a report on climate change. While the company discloses information on its policies, practices, oversight and performance metrics related to managing climate change-related risks on its website and in several reports, it does not disclose or appear to track the GHG emissions associated with its lending activities, which is by far the most material component of the company's contribution to climate change. The company also does not currently have GHG emissions targets in place.

We held a call with the company on this matter, and it highlighted that the main issue is the lack of a consistent methodology for calculating financed emissions. The company is therefore not comfortable with putting out such a report for the time being, although it reiterated its support for the Paris Agreement.

Our general expectation is that global financial services companies with a large lending footprint should develop the capabilities needed to report on how their lending portfolio stacks up against the Paris Agreement goals. It appears that setting hard targets that would result in the company achieving a net-zero footprint is likely to become a best practice in the industry.

As the company falls short of this – and given its major role in financing the fossil fuel industry – we believe that shareholders would benefit from additional information on the company's plans regarding aligning its operational and financed GHG emissions with the Paris Agreement goals and reducing climate-related risks. Accordingly, we supported the proposal.

At the 2020 AGM, neither of the proposals passed. The proposal requesting separation of chairman and CEO roles was narrowly rejected, receiving 41% support, and the one requesting a climate change report received support from 15% of shareholders.

Italy: Financial services company

Themes: executive remuneration

A Fidelity sustainable investing analyst and a portfolio manager held a call with company representatives from legal and investor relations teams to discuss the company's AGM agenda.

We have been engaging with the company extensively on the composition of its long-term incentive plan (LTIP) and have been voting against it for a number of years, due to the short vesting period (three years), which does not comply with our five-year minimum requirement. The company informed us of several improvements made over the course of 2019, including a cap to bonuses, improved disclosure of KPIs used under the bonus and LTIP plan and the introduction of sustainability KPIs for the CEO. The more important development was a clause included in the LTIP plan, whereby the executive director will have to retain 50% of shares that vest under the plan until the end of the mandate; as a result of that, we now consider the plan to be compliant with our voting guidelines.

Accordingly, Fidelity voted in favour of all agenda items, all of which passed at the AGM. The remuneration policy received support from 84% of shareholders.

U.K.: Financial services company

Themes: climate change

At the 2020 AGM, shareholders were asked to vote on separate, binding climate-themed voting resolutions submitted by the board and the NGO Share Action. Both of the resolutions were aimed at aligning the company's provision of financial services with the goals and timelines of the Paris Agreement, prioritizing a focus on clients in the energy and power sectors first, and requiring the company to report on its progress against targets on an annual basis from 2021 onward. While the proposals shared the same broad objectives, the board's proposal prioritized shifting the client book to a Paris Agreement-aligned trajectory on a sector-by-sector basis, while the shareholder proposal emphasized phasing out aligned clients not aligned with the Paris Agreement.

Fidelity engaged with the board and the shareholder proponent over a period of several months leading up to the AGM vote. In the early stages, we focused on gaining an understanding of both proposals, the proponent's broader objectives, the company's ESG approach and recent changes thereto, and the feasibility of implementing one or both of the resolutions concurrently. We recognized that there was significant common ground between the resolutions and spent the later stages of our engagement encouraging both sides to engage constructively on a compromise proposal. We were disappointed when the two sides failed to reach an agreement.

Recognizing the potential risks of instructing the board to pursue two pathways to the same objective, we resolved that it was in the company interest for shareholders to pass one resolution. Following extensive deliberation, we concluded that the board's sector-based, engagement-focused proposal was preferable, on balance, and were satisfied that its proposed disclosure framework would provide accountability to shareholders on a regular basis. Nevertheless, we were keen to recognize the proponent's contribution, and thought it would be inappropriate to oppose its resolution advocating phasing out clients not aligned with the Paris Agreement. We therefore voted in favour of the board's proposal and abstained on the shareholder proposal.

The board proposal was approved at the AGM, and the shareholder resolution was voted down.

Switzerland: Financial services company

Themes: corporate governance, risk management

In February 2020, the Swiss financial market supervisory authority FINMA issued an enforcement action against the company for anti-money laundering (AML) deficiencies. FINMA ordered the company to implement a suite of operational, structural and HR-related measures to improve AML mechanisms, put in place a functioning AML risk identification system, amend its remuneration and disciplinary policies and establish a board risk committee.

Fidelity noted the AML breaches with concern. Recognizing that the board, and in particular its governance and risk committee, bore a particular responsibility for the risk oversight failures established in the FINMA report, we concluded that it would not be in the shareholders' interest to support the re-election of two of the committee's long-standing members. This was both in order to send a signal regarding the board's accountability for the breaches, and to remove potential impediments into any internal investigations of the board's or management's responsibility for the risk oversight failures. Therefore, we voted against two of the three governance and risk committee members.

Both directors were re-elected at the AGM.

For more information, contact your Fidelity representative.

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