

Engagement Policy



Flamingo chicks emerge from their nests. (Credit: Anadolu Agency / Contributor, Getty Images)

Introduction

This engagement policy sets out how Fidelity International undertakes stewardship and shareholder engagement across our listed equity and fixed income holdings.¹ This policy has been written in accordance with the requirements of Directive (EU) 2017/828 and its implementing measures (hereafter the “Shareholder Rights Directive”).

Fidelity International (hereafter “Fidelity”) refers to the independent group of privately owned companies which form the global investment management organisation that provides products and services in designated jurisdictions outside the United States.

Fidelity is a privately owned
global investment and retirement
savings business

Where Fidelity sub-delegates investment management responsibility for certain assets to third parties, this policy will not apply to those assets. The entity responsible for managing these sub-delegated assets will often have its own policies in place for stewardship and responsible investment.

Context

Fidelity is a privately owned global investment and retirement savings business. Our clients range from central banks, sovereign wealth funds,

large corporates, financial institutions, insurers and wealth managers to private individuals.

Our asset management business invests on behalf of its clients across all major asset classes. This is through Fidelity funds and segregated mandates, which can be holistic investment solutions or portfolio building blocks. We also provide a range of other investment-related services. These include solutions design advisory and full-service asset management outsourcing, administration for workplace benefit schemes, advisers and individuals in several countries and consumer guidance for investing and financial planning.

The company was founded in 1969 as the international investment arm of US-based Fidelity Investments (FMR), which was founded by Edward C. Johnson II in 1946. Fidelity became independent of FMR in 1980 and today is mainly owned by management and the founding Johnson family. Fidelity is fully disaggregated from FMR and has an independent investment business and stewardship functions, with information barriers in place to prevent conflicts. The two companies collaborate on a commercial terms basis when it is in their clients’ interests to do so.

This engagement policy applies to Fidelity’s asset management business.

¹Our approach to engagement in other non-listed asset classes is set out in other policies, including our Real Estate Sustainability Policy.

Stewardship activities and oversight

The firm's stewardship activities, which include proxy voting and engagement, are spearheaded by the Sustainable Investing (SI) team, which is comprised of sustainability and stewardship professionals covering various subject matter areas and competencies. The SI team is part of Fidelity's Investment Management business and helps the firm's global team of investment analysts and portfolio managers monitor, analyse and engage with investee companies.

Fidelity's investment analysts are responsible for developing the company's house view on investee companies from a financial and sustainability perspective. The analysts will generally lead company meetings that are conducted principally for information-gathering purposes and research, with SI team members supporting as subject matter experts where appropriate. Conversely, the SI team tends to lead on thematic environmental, social and governance (ESG) or governance-focused (e.g. voting) engagements, with investment analysts supporting where appropriate.

Fidelity portfolio managers often participate in and will sometimes lead key engagements (e.g. for specific investment strategies with a sustainability emphasis). There are also other investment team members that support specific stewardship activities. These include the Capital Markets team, which supports the investment team with IPOs and equity placements. The Senior Governance Advisor also supports the London investment team on strategic engagements with non-executive directors.

Fidelity's stewardship policies and activities are monitored by the Sustainable Investing Operating Committee (SIOC). SIOC is responsible for applying,

implementing and overseeing sustainable investing across Fidelity's business units. This includes the overall strategic direction, policy formulation, external representation, product, business growth, investment integration, exclusion lists and day-to-day operational delivery. SIOC is responsible for conducting, overseeing and executing ownership rights in investee issuers, including engagement and proxy voting activities. It also has oversight of conflicts of interest.

Integrating engagement into investment strategy

Fidelity pursues an active investment style through portfolio management decisions, maintaining an ongoing dialogue with the management of investee or potential investee companies and voting on resolutions at general meetings. Engagement activities are carried out by portfolio managers, investment analysts, the SI team and other investment team members throughout the investment lifecycle. The purpose is to gather information and monitor company activities, as well as to effect positive corporate change in the long-term interests of our clients.

For equities, shareholder voting is an important pillar of our engagement approach. We also regularly engage through direct dialogue with investee companies as part of our routine investment monitoring and research activities, or in response to a specific event or situation or in relation to sustainability issues. This might be a one-to-one dialogue with the company or in collaboration with other shareholders or corporate stakeholders. We also engage directly with corporates in other ways (e.g. letter writing) where appropriate. While we prefer to engage through dialogue and achieve objectives in a

consensual manner, we may choose to escalate our engagement if we deem it necessary. For engagements concerning major strategic or corporate initiatives (e.g. IPOs) our investment team is supported by the Capital Markets team, which sits behind an information barrier. This structure facilitates a full and open dialogue and means that in principle there is no information which Fidelity cannot accept.

For fixed income investments, stewardship activities are principally reflected in pre-investment diligence activities. These include assessments of an issuer's cashflow, leverage and business strategy to determine if it generates the cashflow to meet dividend payments and repay invested capital on maturity. Fidelity's engagement prior to security issuance sometimes means it can voice concerns over proposed covenants or the structure of the issuance. Following an initial investment, fixed income portfolio managers and analysts will continue to engage with issuers (particularly where we are a significant investor) through the debt reissuance process, when an issuer seeks to refinance or rollover its bonds.

Monitoring investee companies

Fidelity's investment analysts are the hub for our communication with companies and they undertake extensive quantitative and qualitative analysis of potential investments. Formal meetings involving both portfolio managers and analysts are held with investee companies at least twice a year. They cover a range of subjects and the objective is to satisfy ourselves that our longer-term investment thesis remains intact. In addition to financial and strategic matters, discussions cover a wide range of related investment topics. These include, but are not restricted to, corporate governance, capital

structure, business sustainability, management motivation and environmental or social factors.

Analysts supplement meetings with further due diligence, including site visits and ad hoc calls. Research analysts are also encouraged to speak to a broad range of industry experts across the value chain. Research may encompass customers, suppliers, competitors, external industry experts, sell side investment analysts and other shareholders, both directly and through intermediary networks. The investment analysts are responsible for producing most of our company research. For some of our larger holdings, this research is complemented by in-depth due diligence reports prepared by senior investment professionals. We also periodically commission bespoke research from external agencies.

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We believe that the more we can learn about our investee companies the better we can hold them to account for delivering on their strategy. We hold numerous internal weekly, monthly and quarterly reviews that are designed to pool knowledge of our investee companies and to identify opportunities and matters for attention.

We will often seek meetings with the chairmen and/or independent directors when there are issues of concern or when we want a broader perspective on a company's business. These meetings almost

always involve senior portfolio managers, along with investment analysts and SI team members, and usually focus on ESG issues. In addition to a review of strategy, the proper operation of the Board is also a key focus. The discussion will typically also cover matters like Board effectiveness and succession planning. These meetings are sometimes one-off, but in other cases we will hold meetings on a regular basis until the matter has been satisfactorily resolved. We will also occasionally ask to see the chairman of the audit committee to discuss audit and risk-related matters.

Fidelity will consider the exclusion of companies from our investment universe based on specific ESG criteria

Our fixed income analysts analyse companies to develop a deep understanding of their business, outlook and creditworthiness. Our credit analysts also engage with bond issuers and communicate any specific investment or ESG concerns we have.

Integrating ESG issues

ESG integration for both equity and fixed income is carried out at the fundamental level by our research analysts, primarily by implementing the Fidelity Proprietary Sustainability Rating. This rating is designed to generate a forward-looking and holistic assessment of a company's ESG risks and opportunities, based on sector-specific key performance indicators (KPIs). In addition, our portfolio managers also analyse the impact of ESG factors when making investment decisions.

Fidelity's approach to integrating ESG factors into its investment analysis includes the following activities:



Fidelity will consider excluding companies from its investment universe based on specific ESG criteria. We adopt a principles-based approach to ESG matters, which includes placing companies that we see as unsuitable investments on an exclusion list. We are guided by international conventions when deciding whether to exclude a company, including the Convention on Cluster Munitions and the International Convention on the Prohibition of the use of, stockpiling, production, and transfer of Anti-Personnel Mines. We also consider guidance from the United Nations, the World Bank and other global regulations that uphold ESG principles. All funds managed by Fidelity are subject to our firm-wide exclusions list (cluster munitions, anti-personnel landmines and other controversial weapons).

Fidelity also launched a sustainable product range in 2019. This contains investment strategies that select companies with strong sustainability characteristics and are also committed to achieving

compelling long-term financial performance. Products within the sustainable range are subject to additional behavioural and fundamental exclusions. The strategies may be required to divest from existing holdings when the relevant engagements have failed to achieve their objectives and milestones.

Individual portfolios are subject to an in-depth quarterly review with senior management. Every aspect of the fund in question is examined, including risk profile, volatility, performance and fund positioning, as well as the individual investments of the fund. The quarterly reviews consider ESG scores (from third parties and our proprietary ratings) and carbon data, which are standard measures of the ESG quality of our funds. This means that the chief investment officers hold portfolio managers accountable on how sustainable investing forms part of their investment decision making process.

Conducting dialogue with investee companies

We maintain an ongoing dialogue with the management of investee companies. In addition to these regular engagements, there are a variety of other opportunities for ad hoc engagements. These include:

- Responding to a controversy or adverse event (e.g. evidence of poor governance)
- Firms flagged by our analysts during our proprietary sustainability rating assessment as good candidates for engagement (e.g. exposure to sustainability risks)
- Issuers held in our range of sustainable products and strategies, which are subject to a more systematically targeted programme of engagement

- Our SI team may carry out a thematic engagement a on specific sustainability issue (for example, supply chain management)
- Issuers may request engagement before a specific governance or corporate event is announced (e.g. a merger or acquisition)
- Through involvement with a third-party engagement forum (e.g. Climate Action 100+)

Once we have identified an engagement opportunity, we believe the best approach is to launch constructive dialogues with companies to explain our beliefs and expectations and encourage a shift in long-term behaviour.

Our engagement process is designed to be well-defined and transparent. The following components are identified at the outset:

- Key issue area(s): The theme(s) that the company needs to demonstrate improvement on (e.g. climate change)
- Objective: The ultimate desired outcome from engagement (e.g. reduced CO2 intensity)
- Milestones: Indications that the company is making efforts to achieve the objective we have communicated (e.g. setting a carbon reduction target)
- KPIs: There should be measurable KPIs for each milestone.
- 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, some progress, or success)

Our analysts, portfolio managers and sustainable investing specialists document all engagements with issuers in a centralised application platform

that is available to the entire investment team. This transparency allows the team to enrich its knowledge and learn about sectors, themes and asset classes.

We derive information for the voting process from a variety of sources. These include material provided by the company, proxy voting advisory services and internal and external research

While we prefer to engage through dialogue and achieve objectives in a consensual manner, we may choose to escalate our engagement if we deem it necessary. When escalation is deemed appropriate, our first step is often to contact other significant shareholders to determine whether they share our views or concerns. Following these conversations, we will speak to the company's advisers and/or independent directors to exchange views. While we prefer to achieve our objectives in a consensual and confidential manner, when there remain differences with a company we may consider engaging jointly with other shareholders, escalating our concerns to regulators and more public forms of dissent. If the differences with a company remain unresolved, we may vote against the Board in a general meeting or even requisition an extraordinary general meeting to enable all investors to vote on the matter in dispute. We would not normally intervene on an operational matter, but topics that have been escalated in the past include the need for management and/or Board change, strategy, capital structure, mergers and acquisitions (M&A), protection of shareholder rights, remuneration and other ESG-related issues.

Exercising voting rights

Fidelity has its own proxy voting guidelines. These are underpinned by the objectives of upholding good corporate governance standards across our equity holdings, preserving shareholder rights and supporting companies that are sustainable, innovative, responsible and accountable to their shareholders. The SI team is responsible for developing and executing the proxy voting guidelines.

We derive information for the voting process from a variety of sources. These include material provided by the company, proxy voting advisory services and internal and external research. We may also hold discussions with investee companies.

We will generally consult the relevant portfolio managers and analysts before voting on certain resolutions, including ones related to M&A and capital raisings, debt issuances, material changes to the articles and votes against management in cases where our shareholding is material. When voting, we consider the circumstances of the investee company and prevailing local market best practice. Fidelity's policy and approach to exercising its voting rights are in accordance with all applicable laws and regulations and are consistent with the investment objectives of the various portfolios.

Fidelity's voting instructions are generally processed electronically via our proxy voting agent, Institutional Shareholder Services (ISS). Our proxy voting agent provides general meeting notifications, processes our voting instructions and records this activity for subsequent reporting purposes. We also subscribe to several corporate governance and voting advisory services, including products supported by ISS and Glass Lewis. We have a set of customised voting policies with our

voting agent, but always make eventual voting decisions in accordance with our policies and voting guidelines after consulting with the relevant portfolio managers where appropriate.

To achieve the best possible outcomes for our clients, we generally try to apply our voting rights uniformly and do not split our vote (as long as doing so does not conflict with the objectives or interests of any individual fund). In cases where individual portfolio managers hold opposing views on a particular resolution, or where views differ between the portfolio managers and the SI team, we have an escalation process where the SIOC has the final decision-making authority. Votes that are particularly significant to the organisation as a whole (e.g. for reputational reasons) may also be escalated to SIOC for review and approval.

We seek to vote all equity securities when there is a regulatory obligation for us to do so, or when the expected benefit of voting outweighs the expected costs. In cases when our shares will be immobilised from trading if we vote (“share blocking”) or when there are onerous requirements for voting, we may consider not voting part or all of the holdings of our managed funds. We will not vote at the shareholder meetings of Fidelity funds unless specifically instructed by a client.

We disclose our voting record for the previous 12 months on our website and this information is updated on a quarterly basis. We provide institutional clients with quarterly voting reports, as well as a more in-depth annual governance and engagement report.

Fidelity operates a limited stock lending programme through a third-party provider. While we will not generally recall stock for routine votes, we will recall stock when it is in clients’ interests to do so. This may include votes of significant

economic or strategic importance, votes that we expect to be close or controversial, votes where we disagree with management, or votes where we do not have sufficient forward visibility to make a timely and informed judgement. We do not borrow stock for the purpose of gaining additional votes.

Communication with other shareholders and relevant stakeholders of investee companies

We maintain close relationships with a wide spectrum of investors as well as other corporate stakeholders to help us guide our investee companies.

We engage through multiple collaborative bodies such as Climate Action 100+ and actively consider collective engagement initiatives and opportunities. Relevant factors that determine whether we will participate in a collective engagement include an assessment of the nature of the platform and other participants, the size of our investment and a view on whether a collective approach will help achieve a satisfactory outcome. We seek to identify issues (including governance and other ones) which are relevant to the performance or valuation of the business in question.

We also regularly engage with local regulators on matters that may affect investee companies. This may be through direct dialogue, by responding to public consultation requests or through other consultation forums.

We are involved in external governance-related organisations and hold positions in the Investment Association, the Panel on Takeovers and Mergers, the Confederation of British Industry and the International Corporate Governance Network. We are also a signatory

to the United Nations Principles for Responsible Investment, the UK Stewardship Code, the Efama Stewardship Code, the Japanese Stewardship Code, Taiwan's Stewardship Principles for Institutional Investors and the Hong Kong Principles of Responsible Ownership.

Managing conflicts of interest relating to stewardship

The Fidelity Conflicts of Interest Policy addresses the obligations of Fidelity and its subsidiaries that carry out regulated business to maintain and operate effective organisational and administrative arrangements, with a view to taking all reasonable steps to prevent conflicts of interest from constituting or giving rise to a material risk of damage to the interests of its clients. It applies to perceived as well as actual conflicts.

Where it is a fiduciary, Fidelity has a duty to its clients never to put itself in a position where its own interest results in an irreconcilable conflict with its duty to its clients, or where its duty to one client results in an irreconcilable conflict with its duty to another client or clients. Fidelity also has a regulatory duty to manage conflicts of interest fairly, both between itself and its clients and between different clients. Fidelity will identify, record, manage and, where required, disclose actual or potential conflicts of interests and have in place a policy relating to conflicts of interest.

Conflicts are identified in various ways, including through regular interviews with business heads, awareness training and internal reviews. There is a governance structure to ensure the Conflicts of Interest Policy is effectively implemented and the Conflicts Oversight Forum meets every quarter to review any issues that involved material conflicts over the previous quarter. These include any newly identified conflicts, any breaches of the

policy and any other relevant regulatory matters. We also maintain a Conflicts Register to ensure that significant conflicts have been identified, addressed and recorded. All staff must adhere to the Conflicts of Interest Policy and the Code of Conduct and Associated Policies. Staff are also made aware that clients' interests must always come before those of Fidelity or its staff.

The following examples are situations where conflicts of interest relating to stewardship could emerge.

1. Investing

Within Fidelity, there are companies which invest as principal for investment purposes in equities and/or bonds which Fidelity may also invest in for our clients. Potential conflicts can occur when acquiring and disposing of securities, voting and when using research. To manage these potential conflicts, decisions regarding Fidelity's investment portfolio are made independently of the investment management process that supports our clients' funds and accounts. Policies and procedures are in place to ensure that these principles are properly followed. It is also possible that a Fidelity fund or account will own securities issued by a client, but in all situations Fidelity's investment decisions will be guided by what we regard as the best interests of the relevant fund or account.

2. Trade allocation

When performing client transactions in securities, Fidelity will combine orders where this is in the best interests of the clients as a whole. If insufficient liquidity means an order is partially completed, the securities will be allocated across all clients participating in the block and it is possible that one client may receive a more favourable allocation than another client. To manage this potential

conflict, Fidelity maintains a trading desk policy which ensures that trade allocations are applied in a consistent and fair manner. Allocations are performed on a pro-rata basis based on the size of the order. The system allocation algorithm is automatically applied for every trade, subject to three lines of oversight: the trading desk supervisor, compliance and internal audit/risk.

3. Voting

The SI team is responsible for monitoring possible conflicts of interest relating to proxy voting. In instances when a fund holds an investment in more than one party to a transaction, we will always act in the interests of the specific fund in question. And in cases where there is a conflict with Fidelity's own interests, we will either vote in accordance with the recommendation of our principal third party research provider or, if no recommendation is available, we will abstain or not vote at all. We will not vote at shareholder meetings of any Fidelity funds unless specially instructed by a client. Fidelity has a procedure for escalating voting decisions when conflicts or controversial issues are identified during the voting process, with SIOC acting as final arbiter.

4. Conflicts between different asset classes

Where our funds hold interests in a company's debt and equity, we will always act in the interests of the specific fund in question. When we engage with these companies, representatives from both debt and equity teams may participate when we have determined that there are no conflicts between the interests of both sides. For shareholder voting, equity fund managers are consulted on matters of a commercial nature and on governance issues relating to shareholder rights (e.g. the election of

Board members or amendments to the articles). Likewise, fixed income managers are consulted on voting matters that relate to bondholder meetings. On shareholder voting matters, fixed income fund managers may also be consulted when the SI team determines that there are not conflicts with the interests of the equity holders. In all cases, the final determination of the vote is made in accordance with our escalation policy.

5. Conflicts between our stewardship policies and those of our clients

We review our client stewardship policies and priorities at the onboarding stage to assess whether they are aligned with our house policies. At present, we do not apply client voting policies but we do support clients who wish to implement their own custom voting policies through a segregated mandate. We also apply bespoke investment exclusions for segregated mandates.

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