

# FIDELITY SUSTAINABLE GLOBAL EQUITY INCOME FUND - STOCK SELECTION PROCESS

## **Important Information:**

The value of investments can go down as well as up so you may get back less than you invest.

The Portfolio Manager's focus on securities of companies which maintain strong environmental, social and governance ("ESG") credentials may result in a return that could, at times, compare less favourably to similar products without such focus. No representation nor warranty is made with respect to the fairness, accuracy or completeness of such credentials. The status of a security's ESG credentials can change over time.

## **Our aims**

The Fund aims to provide long-term capital growth and income via investment in global companies, while adhering to high standards of sustainable investing. It fully integrates financial, sustainability and valuation analysis, while focusing on engagement with companies to improve sustainable outcomes.

The Fund will adopt a sustainability focused strategy under which it will hold minimum exposure of 70% in companies that are highly rated from an Environmental, Social and Governance (ESG) perspective.

The fund will also have the ability to hold up to 30% in lower ESG-rated stocks, so long as we believe there is an improving ESG outlook, as flagged by our proprietary ESG research, which can be aided by our engagement.

In addition, the fund expects to have a lower carbon footprint than that of the MSCI All Country World Index.

Although sustainability factors will be a key feature of the investment process, the Portfolio Management Team will continue to adopt a bottom-up stock selection investment approach, making use of Fidelity's extensive global research expertise to identify high quality resilient businesses to deliver a portfolio dividend based total return with lower returns than the broader global equity market.

We believe that our research and engagement capabilities provide the Fund with competitive advantages in analysing both financial and non-financial factors. In our view, the low turnover of the fund promotes more meaningful engagement with portfolio companies.

## **Stock selection process**

Each stock considered for inclusion in the portfolio is assessed against a number of selection criteria, prior to inclusion. These key selection criteria are:

**Quality** - High quality companies that are capable of achieving superior returns on assets, and where strong free cash flow generation can be used to self-fund future growth as well as pay dividends to shareholders. Company debt should be conservative and appropriate to the business model. To support the Portfolio Manager's stock selection process Fidelity's global research platform provides local insight to each part of the value chain within which companies operate.

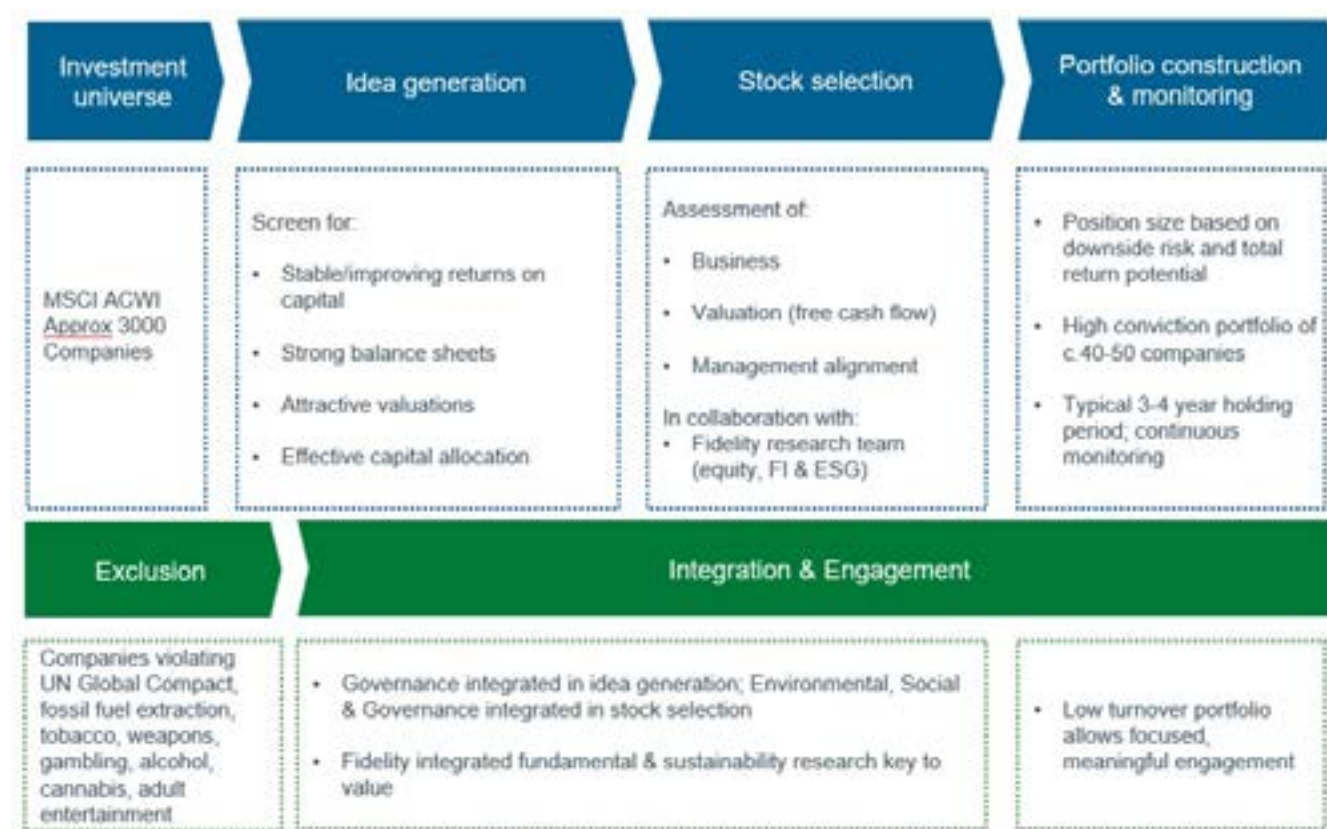
**Sustainability** - The Portfolio Manager looks for evidence of strong governance which encourages long-term thinking in management, alignment of interest between management and shareholders, a clear commitment to

reducing the company’s environmental footprint, and having a positive impact on the wellbeing of employees, customers and other stakeholders. Fidelity’s research team produce proprietary sustainability ratings for each company under their coverage. These ratings and the research insights they produce help the Portfolio Manager to identify those companies showing evidence of strong ESG practices, or where medium-term improvement is possible, and avoid those where poor ESG performance may be leading to higher risk for shareholders and other stakeholders. Fidelity’s proprietary sustainability research is done from the bottom-up, based on in depth engagement with companies and further due diligence. It does not rely exclusively on disclosures from the companies themselves, and as such is able to take an independent view on the ESG characteristics of a company.

**Valuation** - For all investment opportunities the Portfolio Manager undertakes his own valuation analysis in order to assess the upside and downside potential for each stock as well as the stock’s relative attractiveness versus history, other potential investment candidates as well as the existing portfolio holdings. This valuation analysis will focus on the free cash flow produced by the business rather than earnings metrics favoured by most market participants. It will also incorporate the value of any debt used by the company to finance its operations. The valuation analysis helps the Portfolio Manager to produce an Internal Rate of Return (IRR) for every stock considered for the portfolio, reflecting each company’s sustainable level of earnings power across the economic cycle.

**Dividend sustainability and/or growth** - An attractive dividend or dividend growth profile that is well covered and sustainable even in a stressed scenario.

## A FULLY INTEGRATED APPROACH TO SUSTAINABLE INVESTING



## Our proprietary sustainability ratings

Fidelity Sustainability Ratings is a proprietary rating system developed by Fidelity’s research analysts to assess individual issuers\*. Those ratings score issuers on an A-E scale on sector-specific factors and a trajectory forecast based on an assessment of expected change of an issuer’s sustainability characteristics over time. Such ratings are based on fundamental bottom-up research and materiality assessment using criteria specific to the industry of each issuer relevant to material ESG issues (the ‘Fidelity Sustainability Rating’). Fidelity’s Sustainability Ratings system will rate various types of fixed income securities including securitised assets. For securitised assets, as well as assessing the issuer, Fidelity may assess the sustainable characteristics of entities (such as the originator) to help finalise our sustainability view and ESG rating. Please see footnote for more information on Fidelity’s Sustainability Rating process for securitised assets\*\*.

While Fidelity has its own proprietary ESG ratings, we also look at MSCI ESG Ratings to assess the sustainability credentials of issuers in order to get an external and holistic view. We also understand that these ratings are widely available to end investors thus offering a credible third-party overview of our holdings.

\*The Fidelity Sustainability Ratings were launched in June 2019. As at 31 March 2024, they cover a universe of c. 4,000 issuers in equity and fixed income. Fidelity has a five scale rating of A (best) to E (worst).

\*\*Fidelity Sustainability Rating process for securitised assets follows 9 steps: 1. Identify: Identification of the entity driving the economic performance of the securitised assets and the specific sub sector this entity falls into; 2. Prepare: ESG questions are preloaded into our systems; 3. Governance analysis: Analysis of the documentation for the transaction; 4. Asset analysis: Analysis of sustainability data; 5. Other related and influencing party analysis; 6. Follow-up to gain more information if needed; 7. Complete rating: Using all the above inputs, the Fidelity analyst will complete an ESG report and allocate a Fidelity Sustainability Rating to the securitised assets; 8. Publish; 9. Monitor.

## Fidelity's sustainable characteristics criteria

Sustainable characteristics are defined as issuers rated by MSCI, or in the absence of a rating from MSCI, by the Fidelity Sustainable Rating, as follows:

- Developed market issuers with an ESG rating from MSCI of AAA - BBB
- Non-developed market issuers with an ESG rating from MSCI of AAA - BB
- Issuers with no ESG rating assigned by MSCI will be assessed by Fidelity Sustainability Ratings and are required to have an ESG rating of A - C
- Global market classifications are as set out in MSCI's annual market classification review.

## Exclusion Framework

The fund will focus on investments with sustainable characteristics. As a result, it will adhere to a principles-based framework which sets out the basis upon which certain issuers may be excluded from the investment universe. The framework incorporates both norms-based screening and negative screening of certain sectors, companies or practices based on specific ESG criteria.

- **Fidelity Firm-wide exclusion** issuers with involvement in the following categories of controversial weapons the use of which is prohibited by international treaties or conventions:
  - Cluster munitions
  - Landmines
  - Biological weapons
  - Chemical weapons
  - Blinding laser weapons
  - Incendiary weapons
  - Non-detectable fragments
  - Nuclear weapons for non-signatories of the Treaty on the Non-Proliferation of Nuclear Weapons, specifically:
    - Manufacturers of nuclear warheads and/or whole nuclear missiles
    - Manufacturers of components developed and/or significantly modified for exclusive use in nuclear weapons
    - Derives more than 5% revenue from nuclear weapons
  - Includes issuers that produce exclusive delivery platforms/components only
- **Fidelity Sustainable Family exclusions:** In addition to the above exclusions, Fidelity's Sustainable Family of Funds also excludes other issuers involved in controversial weapons (broader list of nuclear weapons manufacturers and depleted uranium), military weapons, semi-automatic weapons, tobacco, thermal coal\*, arctic mining, oil sands and companies violating international norms including those set out by the Ten Principles of the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights, Responsible Business Conduct and International Labour Organization (ILO) Conventions.

The below activities are excluded, at the indicated **revenue threshold**

This fund has exclusions related to thermal coal and oil sands which are outlined in the fund-specific exclusions.

Category	Description
Controversial weapons	Any controversial weapons - sub-categories include biological, chemical, incendiary weapons, depleted uranium, non-detectable fragment, blinding lasers, cluster munitions, landmines and nuclear weapons.
Conventional weapons	All issuers that derive 5% or more revenue from the production or manufacturing of conventional weapons (excluding semi-automatic weapons).
Semi-automatic weapons	All issuers involved in the production of semi-automatic weapons and retailers with 5% or more of their revenues from the sale of semi-automatic weapons.
Tobacco	All producers/manufacturers of tobacco and issuers that derive 5% or more of their revenues from tobacco retail, distribution, supply or licensing.
Arctic Oil & Gas	All issuers that derive 5% or more revenue from Arctic Oil & Gas activities.

## Fund-specific exclusions

Category	Description
Gambling	All issuers that derive 5% or more revenue from gambling activities.
Adult Entertainment	All issuers that derive more more than 0% of revenue from the production of adult entertainment and issuers that derive 5% or more revenue from the distribution of adult entertainment.
Alcohol	All issuers deriving 5% or more of revenue from alcohol.
Cannabis	All issuers deriving 5% or more of revenue from cannabis.
Unconventional Oil & Gas	All issuers deriving 5% or more of revenue from the extraction of unconventional oil & gas.
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Oil & Gas - Distribution & Retail	All issuers deriving 5% or more of revenue from distribution & retail of oil & gas.
Oil & Gas - Equipment & Services	All issuers deriving 50% or more of revenue from equipment and services related to oil & gas.
Oil Sands	All issuers deriving more than 0% of revenue from oil sands extraction.
Thermal Coal	All issuers deriving 5% or more of revenue from the extraction of thermal coal.
Power Generation - Thermal Coal	All issuers deriving 5% or more of revenue from thermal coal power generation.
Power Generation - Nuclear	All issuers deriving 5% or more of revenue from nuclear power generation.
Civilian Firearms	All issuers deriving 5% or more of revenue from civilian firearms.
Weapons	All issuers deriving 5% or more of revenue from weapons.

\*Exceptions to these exclusions can apply to companies that, in our assessment, have a credible strategy aligned with the Paris Agreement. Where the issuer's revenue share from renewable energy exceeds revenue share from thermal coal activities. Where the issuer has made an effective commitment to a Paris Agreement aligned objective based on approved Science Based Targets or alignment with a Transition Pathway Initiative scenario or a reasonably equivalent public commitment. Evidence of company engagement and/or commitment must be logged in the ESG engagement section of the ESG Rating App.

## Reporting

Reporting on whether the Fund is meeting its sustainable investment policy will be found in the annual and semi annual reports. The MSCI ESG breakdown of the Fund will be available via the Fund factsheet.

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