Fidelity
INTERNATIONAL

Influence and stewardship report

Australia 2023

Contents

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Foreword

Our *Influence and stewardship report* (previously called *Proxy voting and engagement report*) aims to demonstrate how our sustainable investment activities remained focused on creating long-term shareholder value for our clients through multiple stewardship tools, including company engagement, proxy voting, policy advocacy and industry collaborations.

Globally and at the investment industry level, we have seen an evolution and maturing of the conversation about ESG, and particularly questions raised about its role in modern societies and economies, as well as the limitations of its impact. This has also resulted in increasing concerns about greenwashing and an evolving regulatory landscape across different jurisdictions, including Australia.

At the same time, as a firm we have continued to enhance how we think about ESG and its role in helping deliver long-term value for our clients. This is reflected in our sustainable investment beliefs with regard to stewardship, particularly: the fact that as a large and diversified investment manager across multiple geographies, sectors and asset classes, we are exposed to systemic environmental and social risks. Issues from climate change to biodiversity loss and income inequalities can all have an impact in the societies and economies where our investee companies operate, and therefore in their ability to deliver long-term value.

Therefore, we believe that effective stewardship must combine a bottom-up, company-by-company engagement with a top-down, thematic and system-wide approach that includes public policy advocacy – with a focus on creating positive long-term outcomes for clients.

While the more traditional form of stewardship such as proxy voting and company level engagement remain the core part of our active ownership activities, as we build our global and local team in Australia, we have continued to explore how we can use our voice as investors to positively influence and create change more broadly. We hope you enjoy and find reading this report worthwhile.

Methodology and limitations of our approach to tracking progress

This report aims to capture and report to clients our stewardship activities in Australia. Our ultimate goal would be to be able to report to clients on the impact we are having directly or indirectly on ESG issues that impact our investee companies.

However, measuring the impact of stewardship activities remains one of the biggest challenges for responsible investors. Partly because environmental and social issues are usually very broad and there is limited availability of data, but also the attribution of a specific outcome to one investment manager is usually very difficult to capture. Changes at the company level, for example, are normally a result of multiple inputs – internal and external – making it difficult for one investor to claim responsibility for changes within companies. These challenges have been documented by RIAA in their *Stewardship Study* conducted in 2022, where we participated. This is why the industry has traditionally focused on reporting and tracking activities or other input-oriented metrics such as company meetings and number of votes against companies.

In this report, we include a combination of input-oriented metrics and case studies that help us illustrate the focus of the Fidelity investment team in Australia when it comes to ESG and use that as a proxy for our influence.

Paul Taylor
Head of Investments Australia,
Portfolio Manager for the
Fidelity Australian Equities Fund

Jenn Hui Tan
Global Head of Stewardship
and Sustainable Investing

Our approach to sustainable investment and sustainable investment beliefs

At Fidelity, we recognise that maintaining our privileged position as one of the world's largest asset managers is contingent on our ability to continue meeting and exceeding investors' growing expectations for sustainable investing.

To this end, our size and scale provide us with a level of corporate access that few enjoy, and we see it as our fiduciary duty to use this to influence corporate behaviours for better long-term investment outcomes and to avoid principal adverse impacts of these companies.

At Fidelity International, we consider the longer-term consequences of our actions in both financial and societal terms. Increasingly, this means protecting and enhancing our client returns in a way that helps create a more sustainable financial system for society as a whole. As global investment managers, how we hold investee issuers to account today will help shape how a sustainable tomorrow will be.

Delivering outstanding results for our clients requires us to constantly evolve. This evolution is reflected in our sustainable investing beliefs, which inform the approach and activities outlined in this document.

Our sustainable investing beliefs

1	**Sustainability integration leads to better long-term financial, environmental and social outcomes for clients and a broad set of stakeholders.** As active investment managers, we integrate material sustainability considerations into our fundamental research because we believe it can drive better decisions and outcomes, which are integral to the financial futures of our clients.
2	**Effective stewardship combines bottom-up, thematic, and system-wide approaches.** Our approach to stewardship is grounded in the fact that as a large and diversified investment manager across multiple geographies, sectors, and asset classes, we are exposed to systemic environmental and social issues. Effective and outcomes-focused stewardship combines bottom-up corporate engagement, top-down thematic engagement, and system-wide stewardship.
3	**Blending a global mindset and local understanding helps us to deliver insightful research and positive stewardship outcomes.** Stewardship and integration of sustainability issues must take into account local context to be effective, and respect differences in geographic, economic, social and cultural factors. As a global firm with a local presence in many markets, we are well positioned to navigate these challenges and generate differentiated insight and outcomes.

Our commitment to effective stewardship

A well-resourced team

The firm's stewardship activities, including proxy voting and engagement, are spearheaded by the Sustainable Investing (SI) team, which includes sustainability and stewardship professionals covering various subject matter areas and competencies.

The SI team is part of Fidelity's global investment research team. It supports Fidelity's global team of investment analysts and portfolio managers to monitor, analyse, and engage with investee companies.

Specifically in Australia, we have two members dedicated to sustainable investing including stewardship; this includes a head of sustainable investing in Australia (Melbourne) and a sustainable investment analyst (Sydney). They are part of a global multidisciplinary team operating across Europe and the Asia Pacific region.

An active voting approach

Voting is a fundamental component of our engagement with investee companies. Our voting is underpinned by 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.

Our voting process is a collaborative one. The SI team is responsible for the development and execution of Fidelity's proxy voting guidelines and contains subject matter experts in corporate governance, executive remuneration, shareholder rights, and environmental and social matters. When making voting decisions, we draw upon the expertise of Fidelity's global investment analyst team as well as company materials and third-party resources, and direct dialogue with the company may represent a further input into the process.

The portfolio managers are generally consulted before the vote is cast on certain matters, including resolutions related to M&A and capital raisings, debt issuances, material changes to the articles, and votes against management where our shareholding is material.

We do not take a one-size-fits-all approach. We are committed to voting in a sensible and appropriately nuanced way, taking account of each company's individual situation, as well as local norms and best practices. We believe this leads to better outcomes. As an active investor, our general aim is to support the management of companies we choose to invest in and to effect positive corporate change through direct dialogue where possible, but we will not hesitate to vote against management when we believe it is warranted and in our clients' interest.

Prioritisation and areas of engagement

As a fundamental investor by heritage, our stewardship activities have traditionally served to enhance our understanding of the companies we invest in and help inform investment decisions, and we believe it has been effective in serving this purpose. Where we have sought to use our ownership position to effect change at investee companies, this has tended to relate to matters of strategy and governance.

We divide our stewardship activities into two broad categories to meet the objectives outlined in our sustainable investing beliefs. While there is sometimes overlap between the two, they help us better articulate our objectives of bottom-up and top-down engagement.

1. **Bottom-up ESG engagement focused on managing company-specific idiosyncratic risks which are mainly conducted by investment analysts based on:**

   - Due diligence on a company's ESG performance; for example, in preparation for completing our proprietary ESG ratings.
   - Voting-related, flagging ESG issues that would lead to a vote against company management.
   - Low performer with high improvement potential in relation to environmental, social and/or governance impact.
   - Involvement in a controversy or adverse event.

2. **Thematic engagement on systemic issues selected through a top-down approach: These are mainly conducted and led by the sustainable investment team, with support from investment analysts**

Considerations for selecting engagement themes	
Strategic alignment	How aligned is the engagement with our stated priorities or previously identified systemic risks, which include **climate change, nature loss**, and **social disparities**?
Intended impact	Assessment of the intended impact of the primary purpose of the engagement (whether improving practice on an ESG issue, changing a sustainability outcome, or improving public disclosure).
Financial materiality	Strength of alignment of the desired impact with our role as active stewards on behalf of clients.
Chance of success	How likely is it to deliver the intended purpose, and result in the desired outcome?
Product relevance/ fund exposure	Proportion of holdings this is directly or indirectly relevant to.
Differentiation/ additionality	Does the theme deserve more awareness and attention than it receives from other investors? Is the outcome likely to happen without Fidelity's involvement?
Resource requirement	Significance of the internal resource commitment.

How we seek to be stewards and have influence

Systemic and industry level influence

As a member of the global financial community and as providers of capital, we have a voice and a network that can support our positions and objectives with regard to ESG. The following section includes how we contribute and collaborate with the local sustainable finance ecosystem, our direct engagement with public policy in Australia, and thought leadership we generated in the year.

Organisations we supported in 2023

IGCC (Investor Group on Climate Change)

Themes: Climate change, public policy, CA100+

Represents investors on climate-related issues and who advises and puts public submissions on behalf of investors as well as facilitating investor collaboration on climate related issues.

- During 2023, we were active supporters of IGCC and multiple of their engagement groups. We also supported them by sponsoring their annual summit.

IAST-APAC (Investors Against Slavery and Trafficking APAC)

Themes: Modern slavery, human rights, supply chains

This initiative seeks to engage with companies in the Asia-Pacific region to promote effective action in finding, fixing and preventing modern slavery in operations and supply chains. We are founding members of the initiative and serve in their steering committee. We are a lead investor in the company engagement workstream seeking to maximise leverage, generate efficiencies and build knowledge with focus companies in the consumer discretionary, consumer staples, technology and healthcare sectors.

- During this financial year, some of the contributions from IAST APAC included information-sharing events, public policy advocacy with regards to the Modern Slavery Act in Australia, and the engagement with 22 focus companies, across the consumer discretionary, consumer staples, technology, and healthcare sectors as part of the workstream. Companies are listed on the following exchanges: Australia, Hong Kong, Japan, Philippines, Singapore, South Korea, Taiwan and Vietnam.[1]

40:40 Vision

Themes: Gender diversity, C-suite, gender balance, collaborative engagement

This initiative seeks to promote gender diversity in executive leadership teams (ELT) of ASX-listed companies by actively encouraging companies to set medium- and long-term targets for gender balance.

- As at December 2023, 40:40 Vision had 37 companies that had signed up to the initiative.
- In terms of outcomes, the latest CEW Census found a small increase in the overall representation of women in ASX 300 ELT roles, from 27% in 2022 to 29% in 2023. However, the observed increase in representation across all ELT roles masks significant variation in diversity at the company level.
- The proportion of ASX 300 companies with gender-balanced ELTs (achieved 40:40:20) is 23%, up from 20% in 2021 and 17% in 2022. These figures illustrate how change is not always linear.
- The number of single-gender executive teams in the ASX 300 has reduced to 10%.
- Thirty-nine per cent of ASX 300 companies have set 40:40 targets, an increase from 36% in 2022. However, despite strong evidence demonstrating the effectiveness of target setting, 36% of ASX 300 companies are yet to set gender composition targets for their ELT, and a further 24% have a target that is less ambitious than 40:40.
- Over 70% of companies that have been a signatory to 40:40 Vision for 12 or more months (as at September 2023) have either improved their ELT gender diversity or remained the same since becoming a signatory. This again demonstrates the effectiveness of a strong approach to target setting.[2]

1. https://cdn.iastapac.org/content/uploads/2023/09/12060203/IAST-APAC-Annual-Report-2023.pdf
2. https://www.hesta.com.au/content/dam/hesta/Documents/4040-vision-report-2023.pdf

ASFI (Australian Sustainable Finance Institute)

Themes: Sustainable financial system, sustainable taxonomy

Industry association established to create a sustainable and resilient financial system to direct capital to support greater social, environmental and economic outcomes in Australia.

- During 2023, our head of sustainable investing, Australia acted as a technical advisor and was selected as one of the technical experts for the development of a green taxonomy in Australia.

RIAA (Responsible Investment Association Australasia)

Themes: Responsible investment, standards

RIAA is the largest responsible investing and sustainable finance organisation in Australia and New Zealand, with over 500 members. RIAA provides the leading certification program to distinguish quality responsible, ethical and impact investment products and services.

- During 2023, Fidelity's head of sustainable investing, Australia has remained as an active member of the board and the certification process.

Public policy engagement during 2023

We aim to strategically select our direct public policy engagement. We focus our efforts on those topics that impact us as a financial organisation, impact the companies we invest in, or where we think we have a unique expertise or perspective.

Themes	Regulator	Engagement method	Contribution	Timing	Consultation on
Climate disclosures	Australian Treasury	Public written consultation	Feedback on consultation paper	February 2023	Climate-related financial disclosure in Australia
Climate risk	Australian Government	Closed-door meetings	Participant in IGCC advocacy roadshow	March 2023	Investment decision-making incorporating climate risk
Climate risk	Australian Government	Closed-door meetings	Participant in IGCC advocacy roadshow	April 2023	Investment decision-making incorporating climate risk
Climate, critical minerals	Australian Government	Closed-door meetings	Participant in IGCC advocacy roadshow	June 2023	Critical Minerals Strategy – risks and opportunities for investors
Climate risk	Australian Government	Public written consultation	Feedback on consultation paper	June 2023	Australia's 2035 Emissions Reduction Target – CCA submission, provided case studies for submission
Sustainable finance standards	FSC	Public written consultation	Responsible investment product labelling	November 2023	Guidance on product labelling

Thought leadership during 2023

Culture-based financial risks initiative

Themes: Psycho-social safety, gender-based risks, reputation, human rights, corporate culture

We wanted to understand better how psychosocial and cultural problems represent risks to investors, as we suspected that these had largely been underappreciated.

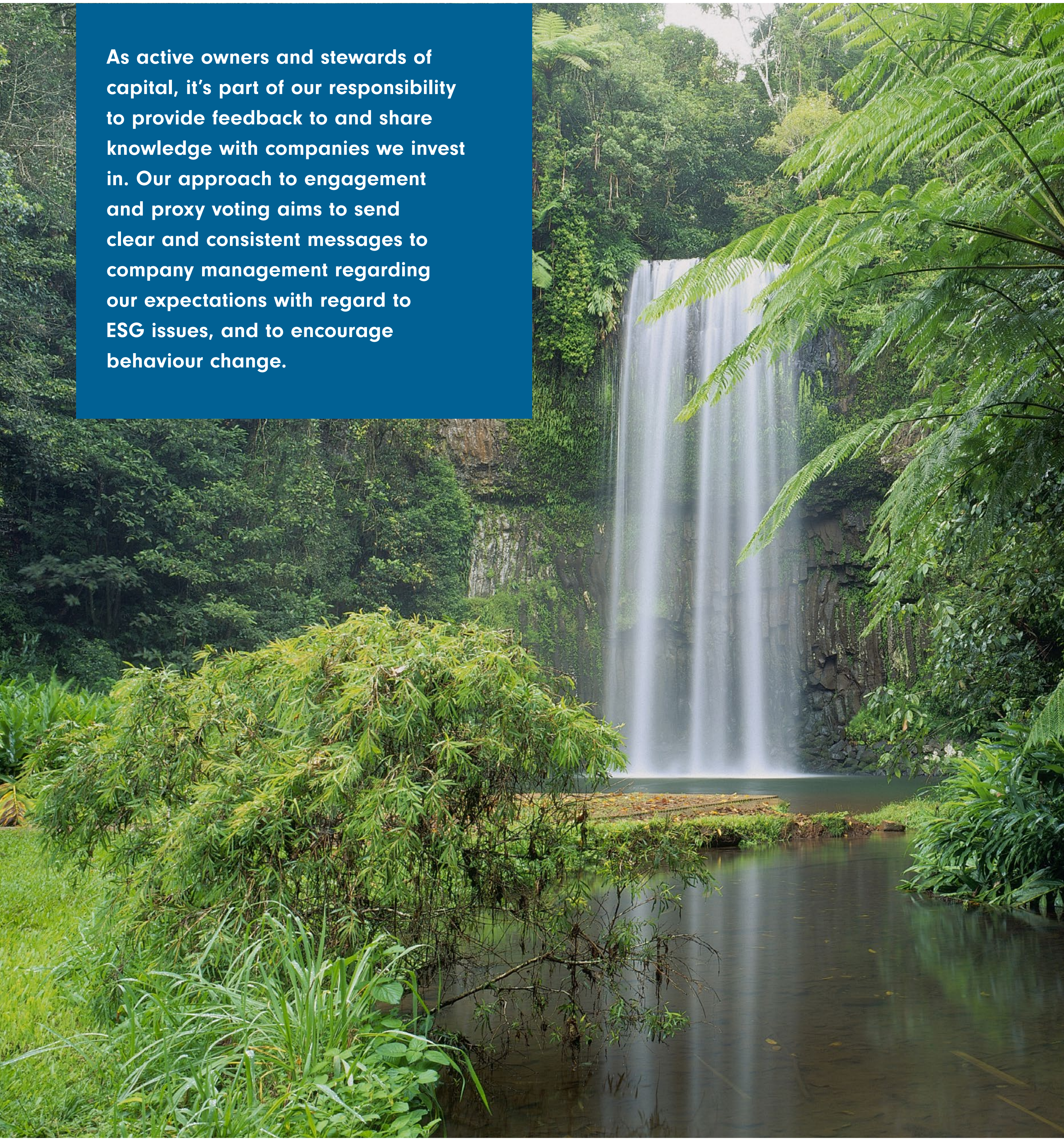
For this, we led a collaborative initiative together with other investors. We consulted with key think tanks, regulators, law firms and experts in the field, and wrote the paper Workplace misconduct: the underestimated systemic implications for investors.

The report coins the term 'culture-based financial risks' to define the multiple ways in which culture can pose risks for investors and impact on shareholder value. It proposes a framework by which to understand how harmful behaviours can create three levels of risk for investors: operational, societal gap and systems-level.

We also presented this work to a group of 30 investors at the Centre for Institutional Investors ESG Forum in 2023.

Company-level stewardship

As active owners and stewards of capital, it's part of our responsibility to provide feedback to and share knowledge with companies we invest in. Our approach to engagement and proxy voting aims to send clear and consistent messages to company management regarding our expectations with regard to ESG issues, and to encourage behaviour change.



Thematic engagement: Climate change risk

Total companies: 130 (Australian companies – 9)

Australian companies: NCIG Holdings, Whitehaven Coal, Cleanaway Waste Management, Incitec Pivot Limited, Rio Tinto, Origin Energy, Santos Limited, Woodside Energy and BHP Group.

A large and growing share of our stewardship activity is focused on climate change and its related risks, which we believe is the most significant long-term systemic risk facing our investee companies. Through our engagement, voting and collaboration in industry initiatives, we aim to ensure that the decarbonisation of our investment portfolios is aligned to the goals of the Paris Agreement.

In 2021, we launched our climate investing policy, which emphasised the crucial role of climate stewardship. From routine company dialogues and proxy voting to focused transition engagements, we believe embedding climate change in our investment stewardship will be critical to catalyse and accelerate the transition to net zero. During 2022, in addition to rolling out our climate rating, we launched our thematic engagement on thermal coal.

Our climate thematic approach focuses on a priority group of approximately **130 issuers globally,** whose decarbonisation will be critical to realise our decarbonisation goals. This includes top contributors to our financed emissions (representing over 70% of scope 1 – 2 emissions) and issuers with thermal coal exposure. We also partner with other investors in engagements, such as Climate Action 100+, where we see particular value in a collaborative approach.

As highlighted above, as part of our climate investing policy, we use our voting rights as an escalation strategy to drive change. The policy outlines our escalation approach for those companies most exposed to climate transition risks that have not demonstrated an effective approach to managing climate risks. In these cases, following attempts to engage and communicate our expectations to the company, we will recommend a vote against directors of the board.

For companies that are deemed high risk, we would generally expect appropriate climate change policies, governance and disclosures, including emissions data, as well as quantitative targets for reducing greenhouse gas emissions.

During the 2023 Australian AGM, three companies did not meet our climate change minimum requirement at the time of the AGM and therefore we voted against a director up for election or re-election. We engaged with all three companies to encourage more ambitious action and to better understand their plans for future disclosure. Following our engagement, one of the companies committed to net zero and interim emissions reduction targets, thereby meeting our minimum requirements. We continue to monitor the progress of the other two companies and encourage further ambition and improved climate-related disclosure.

Woodside Energy – Escalation due to inadequate response from company to shareholder concerns

Themes: Climate, governance

Engagement objective

Encourage the company to pursue a more ambitious climate transition plan and improve climate governance.

Engagement

During the first quarter of 2023, we had several engagement meetings with Woodside's board and management teams to discuss their approach to c limate change and their response to their 2021 *Say on Climate* vote. At Woodside's *Say on Climate* vote in 2022, 49% of shareholders voted against their 2021 Climate Report, representing the lowest vote of any *Say on Climate* proposal globally. In our meetings with the company, we voiced our concern that the company had not committed to another *Say on Climate* vote, the lack of material change in strategy from their 2021 Climate Report, as well as their lack of scope 3 emissions targets.

Following engagement with the company, we felt that the business was not responding in a proportionate way with regard to shareholder concerns, particularly at a time when the sector and its role in the energy transition is under scrutiny from many stakeholders, including the government and the Australian public.

Outcome

As a result of those interactions and reviewing research from proxy advisors including Glass Lewis, we decided to escalate our engagement and vote against two directors who were up for re-election at the 2023 AGM. Although we welcomed Woodside's commitment to an advisory vote for shareholders at the 2024 AGM, we felt it necessary to voice our discontent with the company's lack of action in 2022 and 2023, through our voting rights at the AGM. The directors we voted against were both members of the board's sustainability committee and in our view didn't have the appropriate skills and experience to have appropriate oversight of the company's climate transition plan. While both directors were re-elected, they did receive a significant number of votes against them.

Ahead of lodging our voting directives, we sent a letter to Woodside communicating our voting intentions as well as the associated rationale. By providing this feedback, our aim is to encourage Woodside to reposition its board with skills to those required to driving a resilient business model that can adapt to a lower-carbon economy. We believe that this involves not only climate knowledge, but also experience driving large business transformations and constructive management of stakeholders like governments and regulators, as well as NGOs and activists.

We will continue to engage with Woodside on its climate transition strategy and have expressed our key asks with the company in terms of improved disclosure and enhancements to its decarbonisation strategy.

BHP – Engagement with limited outcomes that led to a change in our approach

Themes: Climate, governance, lobbying

Engagement objective

Encourage improved disclosure on the company's industry association activities.

Engagement

Part of CA100 objectives is that companies align their climate transition plans with their public policy communication and advocacy. This includes the indirect lobbying activities that industry associations conduct on their behalf.

Therefore, we engaged with BHP on two occasions to discuss how it reports this alignment, and asked questions and details about circumstances where we believed there might have been a misalignment.

During our first engagement, ahead of the release of its 2023 Industry Associations Report, we provided BHP with feedback following several months of research from Fidelity on best practice. One of our main asks was that it disclose real-time misalignment with industry associations, to limit the negative implications of lobbying from industry associations that are not consistent with BHP's climate plan. Previously, BHP limited misalignment reporting only on annual basis. We also encouraged the company to demonstrate with examples public policy engagement that aligns with the Paris Agreement.

At the time of the engagement, BHP was very receptive to our feedback and agreed to consider it as part of its 2023 report.

Following the release of its Industry Associations Report in June, we conducted a detailed analysis and comparison versus our expectations. We also consulted with other expert think tanks such as InfluenceMap.

Our general assessment of the report was that the company had endeavoured to incorporate several aspects of our recommendations, such as real-time reporting and greater detail on its methodology, as well as greater disclosure on misalignment between association policies and BHP's climate policy approach. Nevertheless, we were disappointed with the overall output, as we believed it focused too much on process and did not give us comfort that BHP is appropriately managing the broader impacts of its industry association memberships and how they align to its long-term strategy.

We communicated this feedback to BHP, and they understood our concerns but expressed the difficulty in assessing these issues, given that the overall impact of lobbying and advocacy is hard to measure and assess. We appreciate this challenge and we agreed to continue thinking and potentially collaborating with them on approaches they could take to ensure their direct and indirect lobbying is aligned with their long-term strategy and helping mitigate climate systemic risks.

Outcomes

In terms of outcomes – and specifically real-world outcomes – our view is that there has been limited progress in this area since BHP's 2019 report. Given the lack of tangible progress, we have decided to reconsider our approach to engaging with BHP, and other companies, on this topic. See page 19 for details on this.

Incitec Pivot – A vote against management to signal need for change

Themes: Climate, governance, board of directors

Engagement objective

Encourage the company to pursue a more ambitious transition plan.

Engagement

During the 2022 AGM, the company put up for a vote a resolution to seek investors' support for its 2022 Climate Progress Report. We reviewed the report and found that the company had made some progress on climate reporting, but concluded that Incitec Pivot's plan still had critical omissions to manage its climate risks. These omissions included: (1) incorporating scope 3 emissions in its net zero pledge; and (2) aligning its strategy with a less-than-two-degree world.

Outcome

Fidelity decided that abstention was the most appropriate approach to IPL's 'progress on climate change transition' resolution as part of their FY22 AGM. Given the nuance of the vote, we sent a written note with our feedback, to encourage progress in the coming years.

Iluka – A complex decision to vote against a director in a hard-to-abate sector

Themes: Climate, governance, hard-to-abate sector

Engagement objective

Set emissions reduction targets

Engagement

Iluka falls under our high-carbon company category; therefore we have been engaging with the company to encourage it to set a net zero commitment and interim emissions targets (one of our minimum requirements to avoid a vote against directors) since 2022.

During our discussions in 2022, the company said it understood our position and showed some intentions of setting emissions targets, but without a clear timeline. Additionally, at the time, management expressed its intention to pivot the business to move to critical minerals through their Rare Earths Enneaba project. Given their explanation and positive plans, we decided not to vote against directors yet, and recommended an abstention instead.

However, on further engagement during 2023, the CEO and Chair confirmed that they would not be in a position to set targets in CY23 either, arguing that decarbonising parts of their business was technologically unfeasible at this stage, and therefore the targets would not be based on evidence. While we appreciated this position, after much deliberation we decided to vote against a director of the board. This was to signal to the company the urgency and need to continue exploring and finding ways of decarbonising, as we believe it's a risk to the business and investors.

Outcome

In light of this development, we communicated to management the vote against a relevant director at the 2023 AGM.

Orica – A successful request for Scope 3 targets in an already-strong climate strategy

Themes: Climate, Scope 3

Engagement objective

Encourage an enhanced decarbonisation strategy, including Scope 3.

Engagement

As part of Fidelity's climate thematic commitment to engage with the top 70% of scope 1 and 2 emitters, we engaged with Orica Limited on its climate transition plans as well as broader emissions reduction commitments. In the lead-up to its AGM, Orica reached out to highlight that it was considering undertaking a *Say on Climate* vote and wanted our feedback on the key elements that were important to consider when putting forward the vote.

We provided guidance on what elements were critical for a company transition plan and what criteria would need to be met for us to vote in favour of the resolution. In Fidelity's proprietary climate ratings, Orica is already ranked as 'high transition potential to net zero' and is well progressed with the development of its transition plan and executing on its decarbonisation pathway.

Nevertheless, we encouraged Orica to consider providing further detail on their scope 3 emissions reduction strategy, as well as decarbonisation pathway by asset and annual progress updates.

Outcome

In November, Orica published its 2023 Climate Action Report and announced three new and updated emissions reduction targets, including 30% scope 1 and 2 emissions reduction by FY2026 from FY2019 levels, at least 45% scope 1 and 2 emissions reduction by FY2030 from FY2019 levels (an increase from 40% last year), as well as a new 25% scope 3 emissions reduction by FY2035 from FY2022 levels. In addition, Orica provided greater detail on its decarbonisation initiatives and annual progress on operational and value chain emissions reduction.

As a result of these improved targets and Orica's consistent progress on climate-related issues, we decided to vote in favour of Orica's *Say on Climate* resolution. For reference, Orica received a 92.1% vote in favour of its *Say on Climate* vote, the second-highest vote in favour for such a vote in Australia at the time.

Whitehaven Coal – A partial engagement, plus supporting a shareholder proposal as part of our climate escalation strategy:

Themes: Climate, governance, thermal coal, shareholder proposal

Objective

Cease new thermal coal mining developments and publish emission reduction targets.

Engagement

As part of Fidelity's thermal coal thematic, we seek to engage intensively with thermal coal miners that generate material revenue from thermal coal mining, commit to expand thermal coal capacity beyond their existing commitments or are assessed by the Climate Rating as having no evidence of transition potential.

At the start of our engagement, Whitehaven Coal was a pure-play thermal coal miner generating around 80% of its revenue from thermal coal sales. In addition, the company had committed to expanding production at existing brownfield mines as well as pursuing greenfield development at its Vickery mine site. When we engaged with the company on these issues, Whitehaven highlighted that while it did not plan to cease production growth in thermal coal, it was seeking to diversify its portfolio away from thermal coal into metallurgical coal.

In October, Whitehaven announced the acquisition of two metallurgical coal assets from BHP, Daunia and Blackwater assets, which would immediately shift its revenue exposure from 80/20% thermal coal to metallurgical coal to a 30/70% split, post-acquisition.

While we viewed the acquisitions as a positive step to diversify Whitehaven's business model away from thermal coal, the business's underlying revenue and production profile derived from thermal coal is still meaningful.

In addition, post the acquisition, Whitehaven did not provide more clarity on its approach to Vickery, its largest greenfield project, and whether it would reduce its expansion plans.

In addition to production growth, Fidelity is also focused on companies committing to phasing out sales of thermal coal to end-users that do not have climate targets or abatement strategies. As a result, we encouraged Whitehaven to adopt a responsible approach to the sale of its thermal coal volumes and improve the disclosure of its end customers' abatement plans and net zero targets.

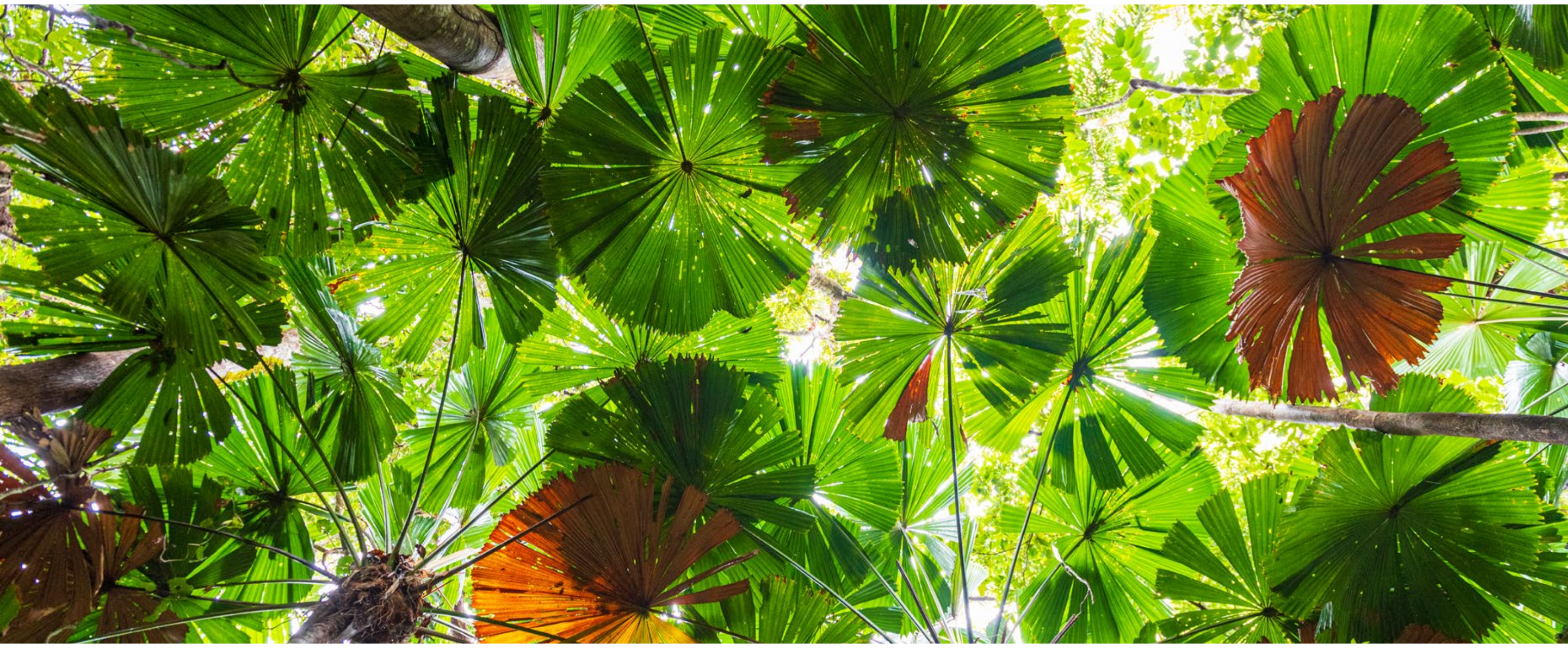
Whitehaven currently discloses this detail at the country level, but we encouraged it to disclose it at the customer level and provide greater detail on its abatement plans. With this information we will then be able to engage on and encourage that volumes sold by miners go to customers such as power generation players, that have abatement plans in place to decarbonise the energy system.

Additionally, in line with our proxy voting policy, we encouraged the company to set emission reduction targets, otherwise this would result in a vote against a director of the company.

Outcome

Given these considerations and our thermal coal engagement objectives, we decided to vote in favour of Market Forces' shareholder proposal, which was seeking improved disclosure on how Whitehaven will manage down its coal assets in line with net zero by 2050, capital requirements for decommissioning and rehabilitation, plans for a just transition, and how Whitehaven's remaining returns would be redeployed or returned to shareholders. Whitehaven's strategy continues to contradict Fidelity's thermal coal engagement goals and therefore we continue to seek avenues through which to escalate our objectives and encourage more ambition from the company on 1.5-degree alignment.

Looking forward, we do believe that Whitehaven's strategic shift toward metallurgical coal is a positive development, and we will seek to use this opportunity to proactively engage with the company to test whether the acquisitions change its approach to thermal coal expansion and greenfield developments going forward.



In addition to our engagement on thermal coal and aligned with our broader climate goals, we also engaged with Whitehaven Coal around its lack of greenhouse gas emissions reduction targets.

As highlighted above, the minimum requirements as part of our climate voting policy include quantitative emissions reduction targets. Ahead of the AGM, we met with Whitehaven to highlight our expectations and flag the potential vote against a director at its upcoming meeting if it did not announce reduction targets.

With regard to our second ask in relation to disclosure of emission targets, Whitehaven announced an emissions intensity reduction target aligned with its requirements under the Australian Safeguard Mechanism, and therefore we decided not to vote against a director at the AGM. We will continue to closely monitor Whitehaven's progress on its emissions reduction targets and encourage greater ambition for their emissions abatement activities.

Thematic engagement: Nature loss

Total companies: 97 (Australian companies – 1)

Australian companies: Orica

Nature loss as a result of human actions is unprecedented and accelerating. Unabated loss of nature leads to the degradation of essential ecosystem services upon which we depend, such as pollination and the provision of water, posing a serious threat to global economic and social prosperity. However, addressing nature loss is a complex challenge. Therefore, we have carefully considered our approach to integrating nature into our investment and stewardship processes, in line with our fiduciary duty to safeguard and enhance the assets that we manage.

As a Finance for Biodiversity pledge signatory and foundation member, we have committed to protecting and restoring nature through our financing activities and investments, by addressing the five core elements of the pledge: collaboration and knowledge sharing, engaging with companies, assessing impact, setting targets, and publicly reporting on these activities by 2025.

In addition, at COP26 in 2021, more than 120 countries, representing 85% of global forests, agreed to stop and reverse deforestation by 2030. Financial services also stepped up. We joined over 30 financial institutions, now representing more than US$8.5 trillion of assets under management, in signing the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation. Our deforestation thematic focuses on a priority list of **39 issuers globally**, none of them in Australia.

We are also part of Nature 100, an investor initiative to drive greater corporate ambition and action on tackling nature loss and biodiversity decline. Fidelity is actively involved as in an investor participant for four global companies, including Australian company **Orica**.

Thematic engagement: Modern slavery

Total companies: 15 (Australian companies – 4)

Australian companies: Domino's Pizza, Treasury Wines, Lynch Group, Nickel Industries.

As an investment manager, our supply chains consist of our investments and investee supply chains. Engagement with companies is key to identifying, mitigating and remediating ESG risks, and this includes modern slavery-related risks. We use our corporate access, research capabilities and investment scale to promote change in issues such as modern slavery.

During 2023, we strengthened how we capture and conduct due diligence on companies' exposure to modern slavery risk through changes in the second iteration of our ESG rating. We undertook a risk-based analysis of sections of portfolios and built capacity internally with key analysts and portfolio managers on the subject.

In addition, we formalised and strengthened our modern slavery thematic engagement squad, which comprises eight members of the sustainable investing team based in Hong Kong, Shanghai, Sydney, Melbourne, Singapore and London.

The engagement squad prioritises engagement with companies based on criteria including risk to people, our financial exposure to companies, and our ability to positively influence investee companies. Currently we have 15 companies in our thematic engagement program, four of which are Australian-based, including Domino's Pizza, Treasury Wines, Lynch Group and Nickel Industries.

Domino's Pizza Enterprises – Some progress, but more speed is required to catch up with competitors

Themes: Modern slavery, supply chain, IAST-APAC

Engagement objective

Improve modern slavery disclosure and risk assessment.

Engagement

Over the last year, we have been engaging with Domino's management team to better understand the risk of modern slavery across their operations as well as their supply chains.

In May, we met with them as part of our collaborative engagement with IAST APAC Investor Group. Having reviewed DMP's 2022 Modern Slavery Statement ahead of the meeting, the group was underwhelmed with the progress that the company had made in terms of supply chain mapping, risk assessment and due diligence.

However, on connecting with the company, it shared that it had made considerable progress across several initiatives. Example initiatives included implementation of a new Business Partner Code of Conduct, a comprehensive due diligence mechanism in place for ANZ supply chains, selection of a new risk management platform to replace EthixBase (Impact Buying) and deveopment of detailed 2030 oadmaps to drive organisational focus on modern slavery management. The company also noted that the underpayment issues raised in its ANZ business had largely been addressed and was a key learning from its ANZ whistle-blower workstream.

Outcome

We left the meeting feeling more confident that the company recognised the risks and was actively seeking to improve its disclosure and risk management systems. Key areas for improvement include global supply chain mapping and risk assessment, implementing comprehensive auditing processes across the organisation and supply chains, as well as comprehensive complaints management systems across all jurisdictions. We will continue to engage with DMP to encourage more ambitious action and goal setting on its modern slavery roadmaps.

Australian thematic engagement: Culture-based financial risks in the mining industry

Australian companies: 6 – Rio Tinto, BHP Group, IGO Limited, Iluka Resources, Mineral Resources and Cleanaway Waste Management

Following our thought leadership work focused on understanding the implications for investors of workplace misconduct, we then focused on the mining sector, which in recent years has come under increased scrutiny around its 'social license to operate', particularly with regard to its management of culture-based financial risks. In the 2018 Australian Human Rights Commission's report, mining was called out as one of the top five industries with the highest prevalence of workplace sexual harassment. The release of Rio Tinto's Everyday Respect report, conducted by Elizabeth Broderick & Co, and the Western Australian Parliament's *Enough is Enough* report, further highlight that harmful workplace behaviours have long been and continue to be prevalent across the mining industry. For a full analysis of how the mining industry is exposed to culture-based financial risks, please see page 10 of the paper Workplace misconduct: the underestimated systemic implications for investors.

Given Australia's and the ASX's exposure to the mining sector, we conducted an engagement with the most exposed companies in our portfolio. We have included the case study of Rio Tinto, who we consider is leading in this space and has made considerable progress.

Rio Tinto – Encouraging progress in elevating workplace culture to reflect its importance to investors

Engagement objective

Alignment of company's strategy and remuneration with workplace-culture goals.

Engagement

We engaged with Rio Tinto multiple times during the year to discuss the company's management of culture-based financial risks following the release of the Everyday respect report. The conversations started early in 2023 in a meeting with the new Chair, where we provided feedback on the lack of alignment with remuneration on culture change and suggested elevating psycho-social safety to the same level that physical safety is considered by miners. Furthermore, we discussed the importance of the mining industry to work on its reputation and highlighted the diminishing pool of talent that is entering the mining sector based on our engagement with the Minerals Council of Australia.

The Chair was receptive to our comments on culture and talent development, and we agreed to gather investors' views of how culture should be incorporated in remuneration.

Then followed meetings with the Chief People Officer and the Chair of the Remuneration and People Committee, focused on understanding better the company's risk management process, incentives alignment, development of a 'speak-up' culture and Rio Tinto's overall disclosure on their cultural transformation plans. We again provided our feedback on the need for culture-related goals to be aligned with strategy and captured in management's remuneration plan; we also encouraged them to mirror their peers in developing a policy for management of non-disclosure agreements (NDAs) when it comes to issues of workplace misconduct.

Outcome

After a year of engagement at board and management level, we are encouraged by our conversations with the company and its exploration of how these are captured in their remuneration plan for 2024. Rio Tinto has indicated that it is exploring how to better disclose information about its use of NDAs as they relate to workplace misconduct and learning from peers.

Australian thematic engagement: Governance and oversight of corporate lobbying and advocacy

Themes: Corporate Governance, lobbying, public policy, advocacy, oversight

Australian companies: 20

Our focus on management of system level risks as part of our sustainable investing activities has turned our attention to the importance of democratic processes and appropriate functioning of a public policy system. The companies we invest in can be very influential in the public policy sphere and therefore we have focused on how they approach public policy engagement directly and indirectly (through industry associations or peak bodies) and the consistency of the positions they take. In 2022 we signed the Investor statement on a Global Standard on Responsible Climate Lobbying, and in 2022 and 2023 we engaged with multiple companies, particularly BHP given their large influence in the Australian context. However, as you can read in the case study on page 13, we realised that our approach to engagement on this topic was not producing the expected benefits.

Following consultation with multiple stakeholders including board members, and upon much reflection, we concluded that the best way for us to approach it was to ensure that boards have appropriate oversight of the company's lobbying and advocacy activities. This oversight must have a strategic and long-term perspective, as these activities can have extensive impacts for the whole system in which those companies and all of their stakeholders co-exist, including investors.

Our first stage to this engagement included asking 20 Australian boards of directors about their oversight of these issues and these are the key findings:

- **Societal expectations are amplifying scrutiny risks.** Given increasing societal expectations, company policy engagement activities are coming under more scrutiny and the potential reputational risk from mismanaging engagements is compounding. It is critical for companies to engage internally and externally in a consistent way to avoid backlash from stakeholders. Robust governance structures could help to mitigate any inconsistency between corporate pledges and their actual political engagement practices.

Interestingly, sectors that have previously experienced social license issues tended to have more robust and transparent approaches to policy engagement. For example, companies in the financial sector, which has been through the Royal Commission, had on average a more comprehensive approach to policy engagement. In addition, retail-facing sectors in general appeared to have more mature policy engagement practices. This is likely due to tighter regulations and a focus on social interests (e.g. financials, entertainment, healthcare, etc.).

- **Silos are leading to discoordination risk.** Some companies lacked a coordinated approach to policy engagement, thereby creating silos across the organisation with little oversight from the board. Companies that engage across several levels of government (e.g. federal vs. state) and across regions appeared to have a higher risk of mismanaging policy engagements due to the complexity and differing accountability. Without a unified approach to engagement, companies can face conflicting interests internally, which can lead to an inefficient use of resources.
- **Short-term vs. long-term objectives leading to conflicting risk.** A key challenge for investors is how we assess misalignment between short-term and long-term interests. Companies may engage in public policy that they consider to be an effective short-term strategy with a good return on capital; however, this engagement may conflict with their longer-term strategy. Over a longer timeframe, this may impact the company's social license to operate and directly conflict with the objectives of long-term shareholders.
- **Lack of policy engagement impact assessments.** While most company boards are actively involved in the process and monitoring of engagement activities, there was very little discussion or focus around assessing the 'impact or influence' that the activities have on policy outcomes.

  The cost–benefit analysis is largely conducted by the management team, and it is unclear whether this fulsome analysis is also assessed at the board level. The lack of transparent impact analysis limits a company's and investors' ability to understand the overall influence a company has on policy development and whether the engagement has been in the best interest of shareholders.

  We will continue reporting on the progress of this engagement as is one of the areas of focus for us during 2024 in Australia.

Australian knowledge building: Fidelity's approach to sustainability within ASX directors

Themes: Fidelity's ESG ratings, double materiality, sustainability, board of directors, ASX 300

Australian companies: 27

We believe that clear communication to companies about our expectations is key to effective stewardship and achieving change in the companies we are invested in. Therefore, we utilise a range of avenues to reach different stakeholders at companies to communicate those standards. In 2021, we hosted an informational webinar for the directors of ASX-listed companies on the impact of a decarbonising investment industry and what it means in practice for their businesses.

As a follow-on series, in 2022, we hosted a webinar on executive remuneration and Fidelity's voting approach. During 2023, we held a webinar for company directors, which reached 43 directors or company representatives from 27 companies. The focus was on outlining our general sustainability expectations through a deep dive into how we assess companies.

Board gender diversity

Themes: Board of directors, gender diversity targets

Australian companies impacted: 15

This was the third year that we implemented our board diversity policy, which outlines the conditions of our escalation approach where a company has less than 30% female representation on its board. The policy outlines that when these minimum expectations are not met, we would normally vote against the most appropriate member of the board that is up for re-election. Ahead of applying this escalation approach, the team will have made attempts to communicate our expectations and engage with companies.

During the 2023 AGM season, **15 companies failed to meet our diversity requirements. We voted against nine companies, abstained on three and supported three.**

Some of those abstentions were driven because the companies had appointed a female director in the previous year, and while they still fell below our 30% threshold, we are providing them with a grace period for when a new appointment is appropriate for the board.

The rest of the abstentions or votes for support, despite not meeting our target, were due to other situations where we felt our vote against a director would have severe negative implications in the board and therefore the company.

As a result of the application of this policy, we have observed that eight companies that we engaged with, and in some cases voted against, have subsequently appointed female directors. While we would not claim that our voting stance was the sole reason for this (there is a push across the market for greater board diversity), we believe our commitment to this issue was a contributing factor in several cases; there were a couple of instances where companies explicitly communicated this to us.

Company name	Board diversity	Rationale
Arena REIT	33%*	Female NED appointed December 2022
Blackstone Minerals Limited	17%	Board size decreased, so decided to monitor future board appointment strategy
Core Lithium	17%	Abstained from the vote given early stage of company. Female NED appointed May 2023
Cynata Therapeutics Limited	17%	Female NED appointed September 2022 (board was previously all male)
Insurance Australia Group Ltd.	27%*	Female NED appointed July 2023
IODM Limited	30%*	Female NED appointed June 2023
Rhythm Biosciences Limited	17%	Female NED appointed January 2023
TPG Telecom Limited	30%*	Female NED appointed March 2023

* Meets Fidelity's guidelines.

MA Financial – How our voting policy can encourage positive change

Themes: Board of directors, gender diversity, climate disclosures, climate policy

Engagement objective

Improve board diversity and independence, and set emissions reduction targets.

Engagement

In 2022, we met with the board and highlighted our diversity and climate change policies, including our minimum requirements for female representation on the board, as well as disclosure on emissions and reduction targets. Given the company was early in its journey and made a commitment to address these issues over the next twelve months, we made an exception under our internal requirements and did not vote against them at the 2022 AGM.

Outcome

In 2023, and since this engagement, we have seen material progress from the company across both areas. On the board structure, in December 2022 the company appointed a female director, which took its female representation from 25% in FY22 to 33% in FY23. It has also ensured that each board committee is now chaired by an independent director, and now the board is majority independent. On climate, it has disclosed scope 1 and 2 emissions and has set emissions targets for its operational emissions. We encouraged the company to explore setting a financed emissions target for its asset management business, as well as conducting climate risk analysis across its portfolios. We will continue to engage with it on these areas in future engagements.

General proxy voting statistics

Proxy voting: We track and report on our votes against companies, from an accountability perspective. We see it as a proxy for the level of activity and thoughtfulness that goes into each company meeting.

During 2023, Fidelity voted at 201 company meetings and voted against management on at least one item at 32% of meetings, and we abstained on 12% of the proposals we voted on during the year.[3] When discounting abstentions on capital resolutions, Fidelity voted contrary to the board's instruction on 67 proposals (6% of resolutions voted).

Voteable proposals Australia in 2023

Votes with management	Votes against management	Abstain*
995	95	43

* Figure included in votes against management.

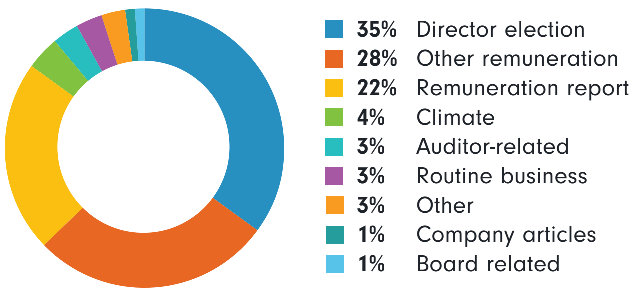
The highest number of votes against the board's recommendation were for remuneration (50%), followed by director election resolutions (35%). Adverse votes on remuneration included votes on the remuneration report (28%) and other remuneration items (22%), which included share incentive plans and grants.

For the remuneration report, most of Fidelity's votes against related to concerns about structure (e.g. excessive quantum, lack of performance conditions, short vesting periods), but some votes against were driven by concerns on re-testing and pay-for-performance misalignment. For director elections, concerns around director tenure were the largest driver of our votes against, followed by board independence concerns and board diversity.

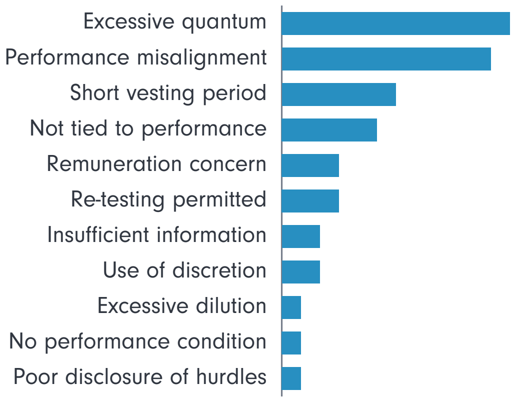
3. Sixty-five out of 201 company meetings. Votes against management include management resolutions where Fidelity voted against or abstained, and any shareholder resolution where Fidelity voted against the board's recommendation. This statistic excludes 28 times Fidelity abstained on capital resolutions due to having participated in the respective capital raise.

Fidelity voted on 13 shareholder resolutions at Australian and New Zealand-based companies in 2023; this represented 1% of the total resolutions on shareholder meeting agendas. Thirty-eight per cent of the proposals sought to amend the articles in order to facilitate the filing of non-binding agenda items (this a tactic used by proponents of ESG shareholder proposals in Australia as a means of filing advisory resolutions). Of the remaining eight substantive shareholder proposals, five were climate-related and three were director elections. Fidelity supported four (80%) of the climate resolutions and abstained on one.

Votes against management in 2023



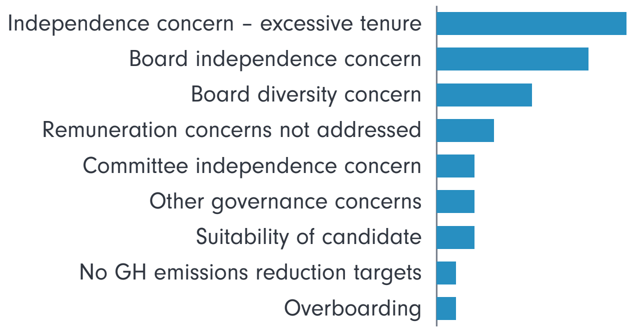
Remuneration report – reasons for votes against in 2023



Director elections

Boards are shareholders' representatives in companies and, therefore, having the right combination of skills and experience is key. At the same time, ensuring that conflicts of interests are managed, and that directors and shareholders' interests are aligned, is a core part of our role as stewards of capital. We vote against directors for multiple reasons including independence, diversity, etc.

Director elections – reasons for votes against management in 2023



Remuneration

Financials sector – Ensuring remuneration structures are aligned with long-term shareholder outcomes

Engagement objective

Alignment of company's remuneration structure with long-term shareholder outcomes balancing non-financial and financial metrics.

Engagement

Following the finalisation of APRA's Prudential Standard CPS 511 Remuneration requirements, several financial institutions, including the Big Four banks, have since adjusted their remuneration structures to increase the weighting toward non-financial elements.

The spirit of CPS511's approach is to encourage greater focus on risk management, performance, and the organisation's long-term viability; however, upon review of several new structures from the banks, the team was concerned that certain structures were not achieving the desired outcome and were not appropriately balancing financial and non-financial outcomes. In some instances, the structures were weighted too far toward non-financial metrics, while others contained metrics that the team believed could be gamed.

Given these developments, we actively engaged with several financial institutions, including **Suncorp** and **Westpac**, to understand their approaches and encourage improved practices to align with long-term shareholder outcomes. For example, we encouraged the use of gateways and modifiers while having total shareholder return as the main metric, in order to more appropriately balance financial and non-financial metrics.

Outcome

Following our discussions with the companies, the team decided not to vote against the remuneration reports at the AGMs. Nevertheless, we proactively communicated to the financial institutions that if improved structures were not considered and adopted going forward, Fidelity would consider voting against the remuneration report in the future. We emphasised a need to balance all stakeholders and create a best-practice approach to remuneration,thereby balancing financial and non-financial outcomes.

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If you require any assistance please contact us on
1800 044 922 (Client Services) or **1800 119 270** (Adviser Services)