

October 2023

Fidelity's Nature Roadmap

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Executive Summary

“At the Natural History Museum, London, we study life on planet earth. We know that life started over 3 billion years ago and is everywhere. But the fossil record

also teaches us that over that vast period there have been five occasions when almost all life disappeared; five mass extinction events when a dramatic change in the environmental conditions wiped out almost all existing species - most recently 66 million years ago when we lost the last of the dinosaurs. Today we could be heading there again. Recent decades have seen a catastrophic acceleration in the rate of biodiversity loss signalling, the possibility of a sixth mass extinction event, and this time – one we caused.

But it’s not too late. Our scientists have been working on this and the good news is that there is a path by which we can still grow the global economy without over-consuming the earth’s natural resources.

That’s where the investor community comes in. By starting to quantify and capture the environmental externalities, investors can help nudge the world towards a path in which both people and planet can thrive.”

Dr Douglas Gurr

Director, Natural History Museum



Photo credit: © The Trustees of the Natural History Museum, London

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. In addition, we have been closely following the development of the Taskforce on Nature-related Financial Disclosures (TNFD), the global risk management and reporting framework on nature, to ensure we are working to align our approach on nature to the recommendations of the TNFD. This document sets out the approach we have chosen, and articulates the broad range of tools and levers we have at our disposal to integrate nature in our investment and stewardship processes. This is our roadmap to managing nature-related risks and identifying opportunities, working alongside the clients who entrust us with their capital and the issuers in which we invest.

The framework covers the following:

Our Nature-related commitments:

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 this document, we explain how we are working to meet the requirements of all elements of the pledge.

At COP26 in 2021, we signed the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation¹. The commitment emphasises the role of active ownership and ongoing stewardship and the importance of collaboration with wider stakeholders to meet these goals. This document sets out our engagement-led approach, including our expectations of exposed investee companies, and our escalation approach where companies do not meet expectations, in line with our [Voting Principles and Guidelines](#).

¹ [DFF-Commitment-Letter.pdf \(unfccc.int\)](#)

Our approach to integrating nature into our investment and stewardship processes:

We are taking a range of actions to integrate nature into our investment and stewardship processes, including:

1. Ensuring robust governance and oversight of sustainability-related issues, including nature
2. Integrating nature into our proprietary ESG tools, including our ESG ratings and Sustainable Development Goals (SDG) tool, as well as leveraging external tools and data
3. Integrating nature into our stewardship and voting activities
4. Ensuring nature is embedded in our Sustainable Investing Framework, to facilitate responsible capital allocation and deliver solutions to clients
5. Engaging with policy makers and ensuring system-wide stewardship

The Nature Roadmap should be considered within the context and scope of our overarching [Sustainable Investing Principles document](#).

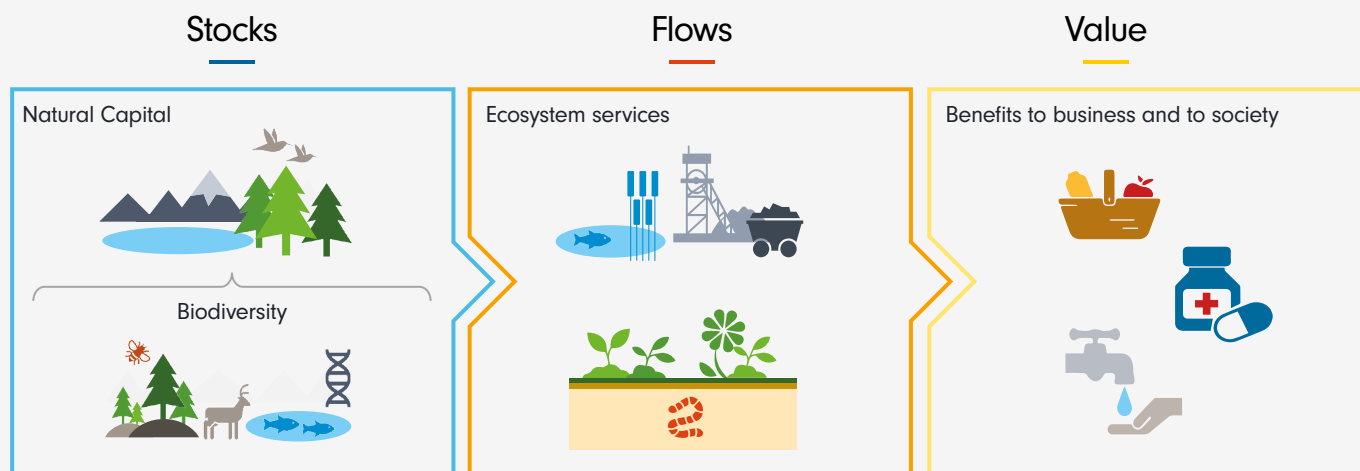
Overview: natural capital, nature, and the nature crisis

Nature is under intense and increasing pressure and its loss is one of the most severe risks we face over the next decade, as highlighted in the World Economic Forum's Global Risks Report². All economic activity is dependent on nature, through its provision of essential ecosystem services, such as pollination and the provision of clean water. Some activities are particularly dependent: it's estimated that more than 50% of global GDP is moderately or highly dependent on nature³. Hence its continued decline poses material financial risks to the economy and financial markets. We see it as being in line with our fiduciary duty to our wide range of clients to consider these risks in our investment and portfolio construction approach. By safeguarding and enhancing the funds that we manage, we seek to ensure we are well positioned to enable our clients to benefit from the policy response and the opportunities to invest in nature-based solutions.

Figure 1: Definitions: Nature, biodiversity, and ecosystem services

Biodiversity is the balance and variety of life on earth. It refers to the living component of natural capital, which more broadly encompasses the world's stock of natural resources, including geology (rocks and minerals), soil, air, and water.

Together, all components of natural capital interact to provide ecosystem services, such as pollination and food production, air circulation, climate regulation, flood protection, and carbon sequestration, from which we derive social, economic, and cultural benefits.



Source: adapted from the Figure 1.1 of the [Biodiversity Guidance to Accompany the Natural Capital Protocol](#) 2016.

²World Economic Forum, The Global Risks Report 2023, [WEF_Global_Risks_Report_2023.pdf \(weforum.org\)](#)

³World Economic Forum (2020) Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy, [WEF_New_Nature_Economy_Report_2020.pdf \(weforum.org\)](#)



Nature is in decline

Globally, biodiversity loss as a result of human actions is unprecedented and accelerating.

Extinction rates are estimated to be 100-1000 times the natural background rate.

Since 1970, there has been around a 69% decline in global wildlife populations.⁴ This is occurring across all geographic regions but most strikingly in

Latin America and the Caribbean, where wildlife populations have fallen 94% in the last 50 years⁵. Extinction rates are estimated to be 100-1000 times the natural background rate⁶ with up to 1 million animal and plant species, out of a total of 8.1 million, facing extinction⁷.

The extent of this loss is reflected by the Natural History Museum's Biodiversity Intactness Index (BII), which provides an estimated percentage of the original number of species that remain and their abundance in any given area. In 2021, the BII was recorded to be 75% globally, with most biomes below the proposed safe limit of 90%⁸.

Climate change and nature loss

Climate change is a direct driver of nature loss and is increasingly exacerbating the impact of other drivers of nature loss. Since 1980, greenhouse gas emissions have doubled, and global temperatures have risen by at least 0.7°C⁹, which has coincided with a marked increase in the frequency and intensity of extreme weather events, and the associated fires, floods, and droughts threatening the survival of species and functioning of ecosystems. Conversely, the preservation of nature plays a critical role in achieving net zero. Nature's continued decline serves to undermine society's ability to achieve the goals of the Paris Agreement. The Intergovernmental Panel on Climate Change's (IPCC) 1.5°C 'safe landing' pathway assumes nature will continue to be a provider of carbon sinks and ecosystem services.

To effectively address nature loss, financial institutions must understand both the synergies and potential trade-offs associated with the climate-nature nexus. Crucially, nature and net zero strategies must complement and reinforce one another. Therefore, failure to address nature loss in tandem with climate change is a failure to address either issue.

⁴ WWF (2022) Living Planet Report 2022 – Building a nature positive society. Almond, R.E.A., Grooten, M., Juffe Bignoli, D. & Petersen, T. (Eds). WWF, Gland, Switzerland

⁵ WWF (2022) Living Planet Report 2022 – Building a nature positive society. Almond, R.E.A., Grooten, M., Juffe Bignoli, D. & Petersen, T. (Eds). WWF, Gland, Switzerland

⁶ [Biodiversity - Our World in Data](#)

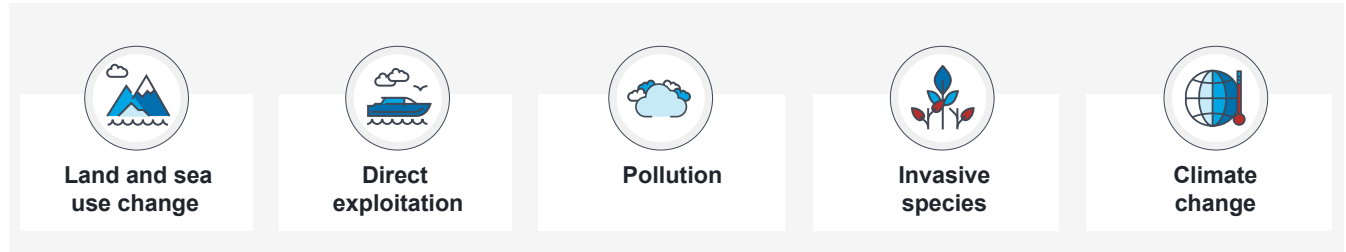
⁷ IPBES (2019): Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. E. S. Brondizio, J. Settele, S. Díaz, and H. T. Ngo (editors). IPBES secretariat, Bonn, Germany

⁸ [Biodiversity Trends Explorer | Natural History Museum \(nhm.ac.uk\)](#)

⁹ IPBES (2019): Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. E. S. Brondizio, J. Settele, S. Díaz, and H. T. Ngo (editors). IPBES secretariat, Bonn, Germany

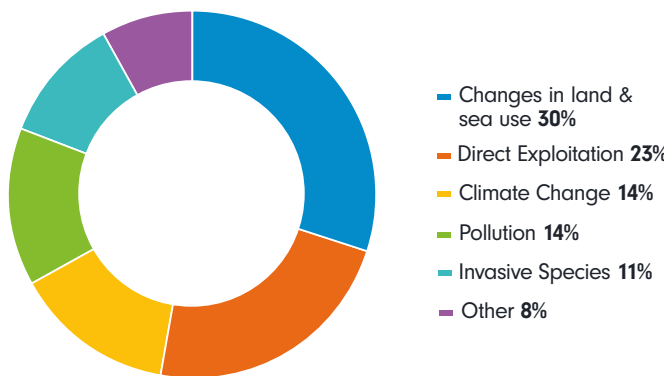
Drivers of Natural Capital Loss

In addition to climate change, nature loss can be attributed to four other key direct drivers, resulting from a range of societal causes:¹⁰



The drivers of nature loss reinforce one another, perpetuating impacts and further accelerating nature’s decline. Hence, they undermine globally agreed sustainability goals, including progress towards the UN’s Sustainable Development Goals, the Paris Agreement, and the Kunming-Montreal Global Biodiversity Framework¹¹.

Chart 1: Direct Drivers of Nature Loss



Source: IPBES, Fidelity International, October 2024.

Direct Land and sea use change

Land and sea use change, in combination with direct exploitation, accounts for more than 50% of the global impact on ecosystems¹². Land use change is primarily driven by agriculture, forestry, and urbanisation, all of which result in air, water, and soil pollution, highlighting the interconnected and reinforcing nature of drivers of nature loss. Other

pressures such as mining are also emerging, notably mining associated with the energy transition. Mining has significant negative effects on biodiversity, resulting in emissions of highly-toxic pollutants, water stress, and significant impacts on human health. This highlights the tensions that may arise between efforts to decarbonise and efforts to protect and restore nature.

Direct exploitation

The extraction of renewable and non-renewable resources has doubled in the last 50 years, directly correlated with the increase in the human population. Intense pressure on natural resources undermines the ability of ecosystems to survive and regenerate themselves. For example, global fishing volumes have been maintained by expanding into new geographies and deeper waters, with an estimated 35% of marine fish species being overfished, which increases to 93% when including fish stocks being fished at their maximum sustainable levels¹³.

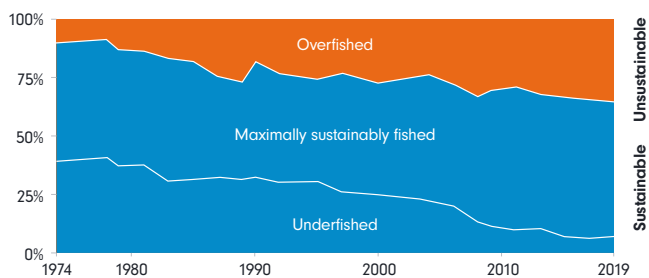
¹⁰ IPBES (2019): Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. E. S. Brondizio, J. Settele, S. Diaz, and H. T. Ngo (editors). IPBES secretariat, Bonn, Germany

¹¹ [15/4. Kunming-Montreal Global Biodiversity Framework \(cbd.int\)](https://www.cbd.int/15/4)

¹² IPBES (2019): Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. E. S. Brondizio, J. Settele, S. Diaz, and H. T. Ngo (editors). IPBES secretariat, Bonn, Germany

¹³ FAO. 2022. The State of World Fisheries and Aquaculture 2022. Towards Blue Transformation. Rome, FAO. <https://doi.org/10.4060/cc0461en>

Chart 2: Global trends in the state of the world's marine fishery stocks, 1974 - 2019



Source: FAO, Fidelity International, October 2023.

Pollution

Air, water, and soil pollution continue to rise globally. Pollutants leach into local ecosystems, affecting soil, air, and water quality, cumulatively impacting the functioning ecosystems. It is estimated that over 80% of global wastewater is discharged back into the environment without treatment, while 300–400 million tons of heavy metals, solvents, toxic sludge, and other wastes from industrial facilities are dumped into the world's waters each year¹⁴. Plastic pollution is an area of particular focus. Plastics have become ubiquitous due to their low cost and versatile nature. Plastic production has therefore increased exponentially in the last 65 years, with production expected to double through to 2050¹⁵. However,

most plastic ends up as waste. Marine plastic pollution has increased tenfold since 1980¹⁶, with plastics accounting for 85% of total marine waste¹⁷.

Invasive species

In the past 50 years, global trade has grown almost tenfold, while the human population has nearly doubled. The associated spatial decoupling of production and consumption has coincided with a 40% increase in cumulative records of non-native species¹⁸. The introduction of non-native species impacts on, for example through the introduction of disease, excessive demand on scarce resources, and disruptions to food chains. For example, the introduction of wilding conifers in the 1880s has penetrated more than 1.8 million hectares of land in New Zealand, and they continue to spread at an estimated rate of 5% per year¹⁹ despite efforts to contain their growth. Their spread has significant negative environmental, social, and economic consequences, consuming scarce water resources, causing acidification, degrading soil quality, reducing the area of land available for arable grazing, providing a habitat for exotic pest plants, animals, and diseases, and limiting recreation and tourism activities, to name just a few examples.

¹⁴ IPBES (2019): Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. E. S. Brondizio, J. Settele, S. Díaz, and H. T. Ngo (editors). IPBES secretariat, Bonn, Germany

¹⁵ National Geographic 2019, The world's plastic pollution crisis explained, Laura Parker

¹⁶ IPBES (2019): Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. E. S. Brondizio, J. Settele, S. Díaz, and H. T. Ngo (editors). IPBES secretariat, Bonn, Germany

¹⁷ United Nations Environment Programme (2021). From Pollution to Solution: A global assessment of marine litter and plastic pollution. Nairobi

¹⁸ IPBES (2019): Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. E. S. Brondizio, J. Settele, S. Díaz, and H. T. Ngo (editors). IPBES secretariat, Bonn, Germany

¹⁹ Department of Conservation, New Zealand, [Wilding conifers: Weeds \(doc.govt.nz\)](https://www.doc.govt.nz)



Dependency on nature

All economic activity depends on nature, through its provision of ecosystem services, such as pollination, the provision of fresh water, disease control, and flood and storm protection. Ecosystem services serve three critical functions:

1. **Provisioning** natural resources, such as timber, crops and minerals
2. **Regulating and maintenance** services, such as water and air purification, water flow regulation, and disease control
3. **The provision of cultural services**, the often intangible benefits derived from the perceived qualities or actual qualities of an ecosystem, such as cultural identity and aesthetic inspiration, and recreational and tourism opportunities

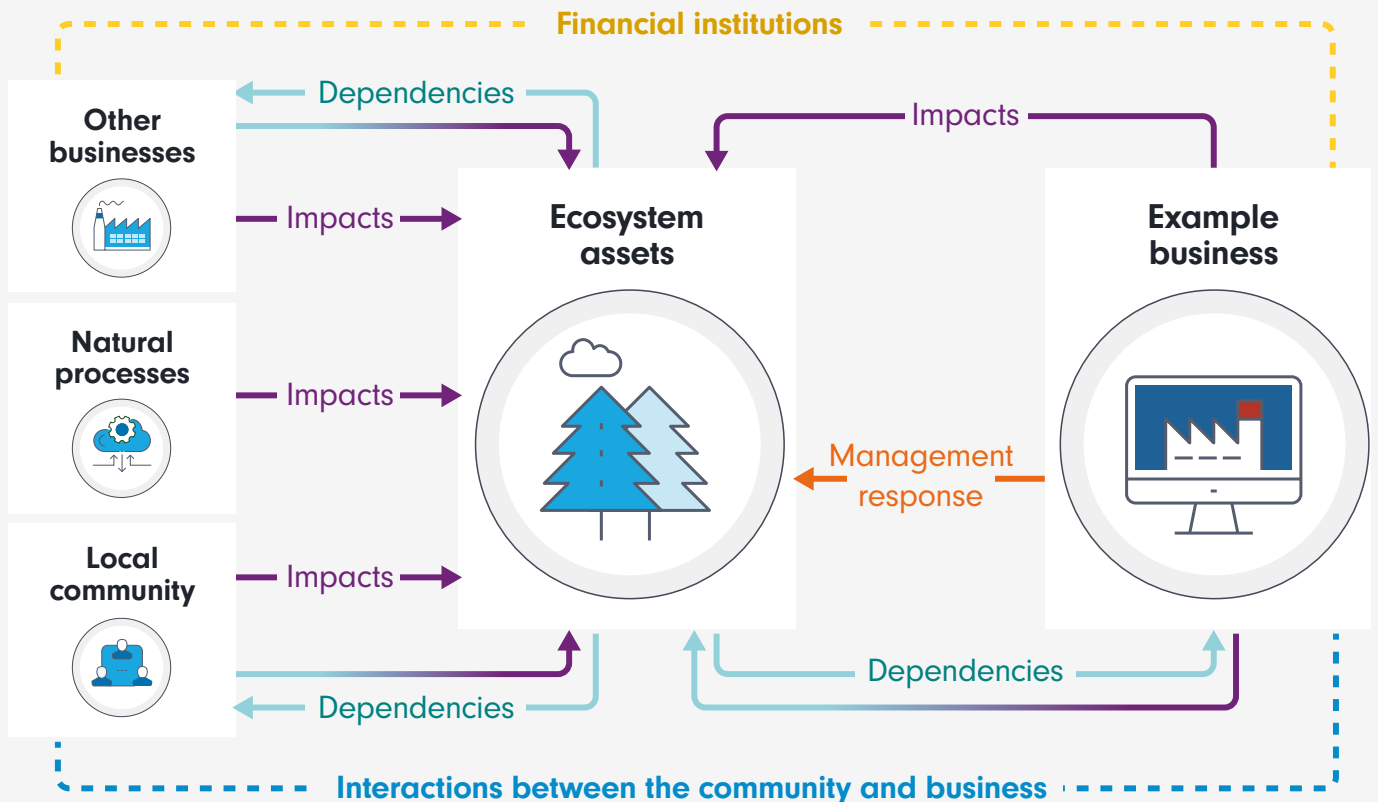
These services are important inputs to all economic activity, either directly or indirectly through value chains. Indeed, these ecosystem services can be

considered capital goods, which much like produced capital (i.e. human-made goods and financial assets) depreciate if they are misused or overused. However, nature differs to produced capital in three key ways:

1. Depreciation in many cases is irreversible or at best takes a long time to recover, highlighting the importance of protection and conservation of intact ecosystems
2. Most ecosystem services are not fully replicable, and some are irreplaceable
3. Ecosystems can collapse abruptly without warning

As such, economic activity both impacts and depends on nature, as summarised in the diagram below. Therefore, its preservation and the management of related risks is critical to ensuring long-term global social and economic prosperity, and the effective functioning of global financial markets.

Figure 2: Business relationship with nature: system-level impacts and dependencies



Source: Fidelity International, 2023 based on UN Environment Programme (2023). Towards a robust measurement of business dependencies on nature. UNEP WCMC Cambridge, UK.

Fidelity's nature and deforestation exposure assessment

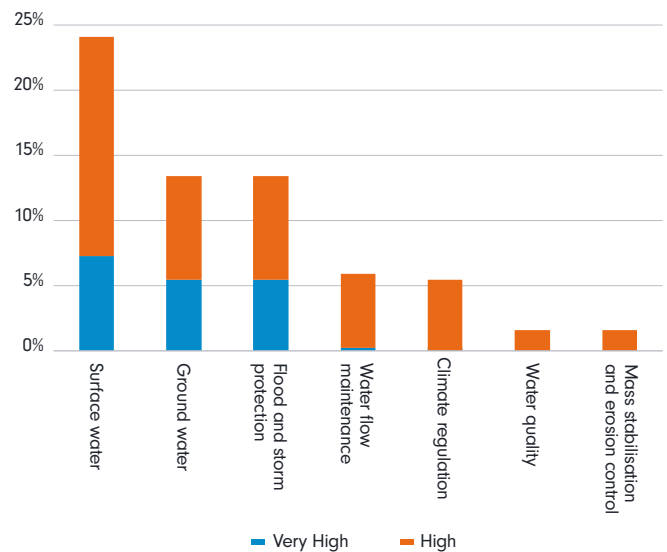
Using the Exploring Natural Capital, Opportunities, Risks and Exposure tool (ENCORE), in 2023 we conducted a heatmapping of our corporate debt and equity investments to better understand the exposure of our investments to potential nature-related dependencies and impacts over the short, medium, and long term. Some of the key insights gained were:

- As of H2 2023, around 30% of our investments were invested in sub-industries that have very high or high potential dependency on at least one ecosystem service²⁰. While not a direct comparison, we note that based on our assessment methodology around 28% of the MSCI ACWI index was exposed to sub-industries that have very high or high potential dependency on at least one ecosystem service²¹.
- The sub-industries that were highlighted as having material dependencies²² across the most ecosystem services were the agricultural products, forest products, water utilities, brewers, and, distillers and vintners.
- The exercise highlighted surface water as the most material dependency, closely followed by the provision of ground water and flood and storm protection.
- Around 50% of our investments were invested in sub-industries that have very high or high potential impact on at least one of the drivers of nature loss. Pollution was highlighted as the most material driver, followed by direct exploitation, climate change, and land and sea use change. While not a direct comparison, according to our methodology around 67% of the MSCI ACWI index was exposed to sub-industries

that have very high or high potential impact on at least one of the drivers of nature loss.

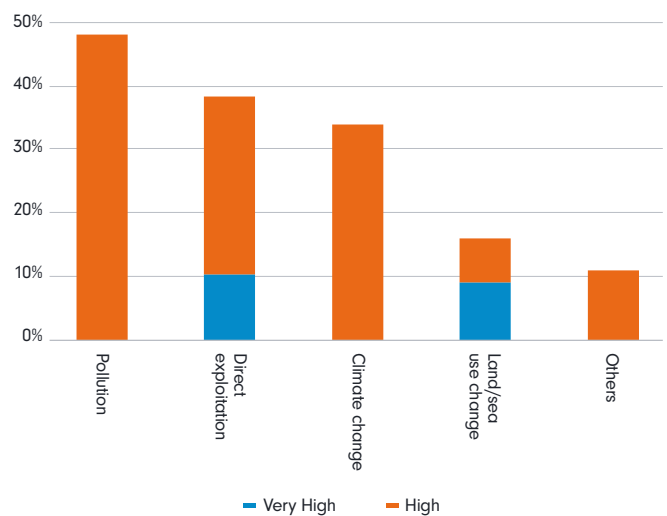
- The sub-industries with material impacts across impact drivers were the integrated oil and gas, diversified metals and mining, and energy producing sub-industries.

Chart 3: Fidelity's exposure to sub-industries that materially depend on ecosystem services



Source: ENCORE, Fidelity International, October 2023.

Chart 4: Fidelity's exposure to sub-industries that materially impact on nature



Source: ENCORE, Fidelity International, October 2023.

²⁰ For full methodology, see Appendix

²¹ FIL exposure considers listed equity and fixed income exposure. MSCI ACWI is an equity only index.

²² Material dependency: a production process ranked as either 'Very High' as 'High' dependency on one or more ecosystem service, see Appendix for full methodology

Acknowledging the interconnections between impacts and dependencies, this exercise has highlighted water as a material issue. Across our portfolios we are materially exposed to sub-industries that impact on water quality and quantity, as well as sub-industries that are highly dependent on the provision of freshwater. This has informed the prioritisation of water as an engagement theme, as discussed in the following sections.

We leverage this data and associated analysis to identify our engagement priorities and inform our investor expectations, identifying the issues that companies most urgently need to address to manage the impacts and risks associated with deforestation.

Going forward, we plan to increase the granularity of this analysis across our investment strategies, so that we can better understand and compare nature-related impacts and dependencies at the company level within high-risk sub-industries. We intend to use this information to enhance the integration of nature-related considerations into our investment and risk management process, building on the existing tools and data we already use, such as our proprietary ESG ratings and SDG tool, as detailed from p.17 onwards.

To understand our potential exposure to deforestation risk across our equity and corporate holdings, we conducted an initial deforestation exposure assessment using Forest 500 data.²³

The Forest 500 is an annual assessment run by the non-profit Global Canopy, which seeks to identify companies with the most influence on and exposure to tropical deforestation risk. Companies are scored out of one hundred, with zero being low and one hundred being high, based on the strength of their deforestation policies and commitments and the progress against their targets. There are however limitations in its application, particularly across asset classes. For example, it cannot be used to assess sovereign bonds. Furthermore, as the scoring methodology and the companies analysed change over time, this also limits the ability to track changes over time at the portfolio level. This analysis isn't exhaustive, but it helps to identify key areas of potential deforestation risk within portfolio holdings.

As of H2 2023, roughly 12% of Fidelity's corporate holdings were constituents of the Forest 500. On an equal weight basis, excluding financial institutions, company holdings average a Forest 500 score of 28% while financial institution holdings average 14%. Roughly 17% of MSCI ACWI constituents are also Forest 500 constituents and have an average score of 21%. We leverage this data and associated analysis to identify our engagement priorities and inform our investor expectations, identifying the issues that companies most urgently need to address to manage the impacts and risks associated with deforestation. Our analysis of potential exposure to deforestation risks has been undertaken on a best-efforts basis; we expect the accuracy to improve over time as data quality improves.

²³ Forest 500 assessment data [2022], Global Canopy, Forest500.org



Nature loss: a systemic risk, with a range of implications for investors

Nature loss is one of the most significant systemic risks, associated with a range of interconnected and mutually reinforcing risks.

Much like climate change, the risks associated with nature loss can be decomposed into physical and transition risks:

- 1. Physical risks** arise as a result of the degradation of natural capital and associated depletion of key ecosystem services, upon which economic activity depends. Physical risks can be acute or chronic, resulting from changes in the biotic and abiotic conditions that support well-functioning ecosystem services, and are often location specific. These include but are not limited to more extreme weather events, soil degradation, and reduced access to raw materials, in turn impacting companies' supply chains, operations, and profitability, as well as sovereign creditworthiness, as the economic consequences of these risks play out. By delaying action, physical risks accumulate and grow in severity, increasing the need for policy measures resulting in transition risk.
- 2. Transition risks** develop as a result of the policy, regulatory, and consumer response to the emerging scientific consensus on the negative impacts associated with nature loss. Activities in high impact sectors are at greater risk of becoming subject to new legislation and regulation aimed at reducing negative impacts

and shaping incentives towards nature-positive impacts. The policy response may lead to disruptions to value chains, including but not limited to animal proteins, plastic production, internal combustion engines, and thermal power generation, as advances in technology and shifts in consumer preferences take hold. In addition, legal and reputational risks emerge as a result of the transition, as stakeholders impacted by nature loss seek compensation from those that they hold responsible. From a sovereign perspective, mismanagement of nature-related risks by government and policy makers can result in reputational damage that impacts creditworthiness, resulting in reduced fiscal capacity and increased borrowing costs. As nature rises up the agenda of policy makers, companies, investors, and other stakeholders, nature-related litigation is expected to become increasingly common.

In combination, these risks penetrate across all sectors of the economy resulting in a series of interrelated systemic social and economic consequences, with the ability to destabilise our global economic and financial system. Financial institutions must consider these implications at the system-wide level, as well as the company level, to effectively steward capital for a more sustainable future.



An accelerating policy response

As the interrelationship with climate change becomes increasingly evident and the associated risks materialise, policy interventions to manage nature risks and encourage nature-based solutions are accelerating. Preserving and restoring nature presents different challenges from tackling climate change, but much of what has worked for climate can be applied to nature. This includes establishing the following:

1

A global framework for action on nature (Kunming-Montreal Global Biodiversity Framework)

2

A common approach to assessing and addressing nature risks (Taskforce on Nature-related Financial Disclosures (TNFD) built on the same principles as Task Force on Climate-Related Financial Disclosures (TCFD))

3

A global reporting standard to improve availability, comparability, and consistency of data (integration of TNFD in International Sustainability Standards Board (ISSB) and Corporate Sustainability Reporting Directive (CSRD) standards)

We are already seeing a wave of nature-related regulation and reporting requirements. As is common with sustainability issues, this is largely being led by the European Union, for example with the introduction of the Deforestation Act, the work to integrate the recommendations of the TNFD into the European Sustainability Reporting Standards (ESRS), the EU Taxonomy, and French Article 29 biodiversity reporting requirements for financial institutions, to name a few examples. Looking globally, the International Sustainability Standards Board (ISSB) has signalled that it will develop standards on nature.

Table 1: System-level targets

COP15: At COP15 in 2022, the Kunming-Montreal Global Biodiversity Framework was agreed and has now been ratified by over 195 nations. The framework aims to halt and reverse global biodiversity loss by 2030, with the vision of living in harmony with nature by 2050 and includes 23 targets to achieve by 2030.

Governmental Deforestation Declaration: At COP26 in 2021, the leaders of 141 countries signed a declaration committing to halt and reverse forest loss and land degradation by 2030.

Deforestation	Biodiversity	Risk, Reporting and Target Setting	Finance
<p>EU Deforestation- Free Products Regulation: Import law on forest-risk commodities linked to deforestation (legal and illegal) implemented from December 2024.</p> <p>UK Environment Act: Imports law covering forest-risk commodities (including derivatives) linked to illegal deforestation. It requires secondary legislation for precise implementation.</p>	<p>EU Biodiversity Strategy to 2030: The EU’s strategy is to get Europe’s biodiversity on path to recovery by 2030. There is progress towards an EU Nature Restoration Law with legally binding targets.</p>	<p>European Sustainability Reporting Standards (ESRS): Under the Corporate Sustainability Reporting Directive (CSRD) report a range of biodiversity and pollution metrics where material.</p> <p>Science Based Targets for Nature: The Science Based Targets Network has launched the world’s first science-based targets for nature, providing guidance for companies to set targets.</p> <p>EU Taxonomy: Biodiversity is one of the main environmental objectives to classify business activities as ‘green’.</p> <p>Taskforce for Nature-Related Financial Disclosures: Risk management & disclosure framework on evolving nature-related risks.</p> <p>International Sustainability Standards Board: Includes specific requirements on nature, aiming to enhance consistency and accountability for organisations to manage and report on nature.</p>	<p>French Article 29: Mandates asset managers to report on their biodiversity footprint alongside climate metrics.</p> <p>Sustainability Finance Disclosure Regulation (SFDR): Includes the requirement for investors to report on Principal Adverse Impact (PAI) indicators, several of which relate to biodiversity.</p>

Nature loss is a risk for investors; addressing it represents an opportunity

Addressing the risks associated with nature loss and the scale of investment needed to do this represents a huge opportunity. The UN Environment Programme estimates that meeting international commitments will require US\$8.8 trillion of cumulative investment in nature-based solutions between now and 2050. Currently, the annual investment is just US\$146 billion. Moreover, private capital accounts for just 17% of the total.²⁴ Comparing that to climate finance, where private sources now account for more than half of all investment, shows there is a significant gap to be closed.

Analyses by the Global Commission on Adaptation (GCA) show that investing US\$1.8 trillion globally in five target areas from 2020 to 2030 could produce US\$7.1 trillion in total benefits²⁵.

As defined by the International Union for Conservation of Nature (IUCN), nature-based solutions are “actions to protect, sustainably manage and restore natural and modified ecosystems in ways that address societal challenges effectively and adaptively, to provide both human well-being and biodiversity benefits”²⁵. These solutions can help to address global nature loss and ensure a nature positive future by strengthening critical ecosystem services, such as carbon storage, provision of food and water, and protecting against the impacts of climate change.

Moreover, as the consequences of nature loss and climate change play out, investors must also be prepared to understand the risk and opportunity set in climate and nature adaptation. Analyses by the Global Commission on Adaptation (GCA) show that investing US\$1.8 trillion globally in five target areas from 2020 to 2030 could produce US\$7.1 trillion in total benefits²⁶. The five target areas are early warning systems, climate-resilient infrastructure, improved dryland agriculture crop production, global mangrove protection, and projects to make water resources more resilient.

In addition, a range of financial instruments and alternative asset classes are emerging aimed at supporting investment in nature. Examples include sustainability-linked and use-of-proceeds bonds, such as ‘debt for nature swap’ blue bonds, and the emerging markets for carbon and biodiversity credits.

Hence, the implications of nature loss for investors penetrate through from individual stock selection to a systemic, long-term reframing of our global social, economic, and financial systems. This calls for a reconfiguration of financial flows away from activities that degrade nature to ones that preserve and restore nature.

²⁴ United Nations Environment Programme (2022) State of Finance for Nature. Time to act: Doubling investment by 2025 and eliminating nature-negative finance flows. Nairobi

²⁵ IUCN (2020). Global Standard for Nature-based Solutions. A user-friendly framework for the verification, design and scaling up of NbS. First edition. Gland, Switzerland: IUCN.

²⁶ World Bank, 2021. Enabling Private Investment in Climate Adaptation and Resilience: Current Status, Barriers to Investment and Blueprint for Action



Fidelity's approach to addressing nature-related risks and opportunities

Our fiduciary role is to safeguard and enhance the assets that we manage. In the context of nature, this means:

- Understanding the nature-related impacts, dependencies, risks, and opportunities associated with the investments we make and their potential implications for our investment strategies
- Investing in nature-based solutions to help mitigate and manage relevant impacts and dependencies

As such, we view nature-related risks and opportunities as relevant to the near-term investment decision and portfolio risk management process, as well as critical to ensuring social and economic prosperity over the long term and the functioning of global financial markets.

We have designed our strategy on nature to complement our net zero ambitions, for example through our deforestation framework, acknowledging the role that protecting and restoring nature is expected to play in achieving a 1.5 degree aligned net zero future.

It is also important to acknowledge that nature-related risk analysis and our ability to 'value nature' is still in its early stages. While in some sectors, such as extractive industries,

there is a plethora of existing data, across many sectors interactions with nature remain underappreciated. Even where data does exist, in many instances it is not publicly or consistently disclosed, hindering decision-useful analysis at the portfolio level.

Fidelity has adopted a pragmatic approach to addressing nature-related risks and opportunities, aimed at delivering real-world change and achieving better outcomes for our investment strategies, in line with our purpose to work together to build better financial futures for our clients.

Therefore, Fidelity has adopted a pragmatic approach to addressing nature-related risks and opportunities, aimed at delivering real-world change and achieving better outcomes for our investment strategies, in line with our purpose to work together to build better financial futures for our clients.

Table 2: Fidelity's commitment to and action on nature loss

Prior to 2021	2021	2022
Joined Climate Action 100+	Finance for Biodiversity Pledge <i>Signatory and Foundation Member</i>	Business Coalition for a Global Plastics Treaty <i>Member</i>
FAIRR Member	Taskforce for Nature Related Financial Disclosures <i>Forum member</i>	Financial Sector Statement on Biodiversity on COP15 <i>Signatory</i>
Palm oil thematic engagement*	Natural Capital Investment Alliance <i>Member</i>	Inaugural CDP submission
Deforestation satellite collaborative engagement	WWF Biodiversity Risk Method for Investors <i>Advisory Investor Group Member</i>	Launched biodiversity-related investment Strategy
Launched Fidelity's ESG ratings framework	COP26 Finance Sector Commitment on Deforestation <i>Signatory</i>	French Article 29 reporting, including impacts and dependency and deforestation exposure analysis for funds in scope
Launched the sustainable Fund Family	Plastic packaging thematic engagement	Deforestation thematic engagement
	Sustainable Fashion thematic engagement	Publication of Fidelity's Deforestation Framework
	Integration of biodiversity into proprietary ESG rating	Launched quarterly sustainability fund reviews
		Internal training webinars
		Development and launch of rating and SDG tool

Source: Fidelity International, 2023. 1. Jenn-Hui Tan, Fidelity's Global Head of Stewardship and Sustainable Investing, also sits on FBP's Advisory Board. 2. [DFF-Commitment-Letter.pdf \(unfccc.int\)](#)

*The palm oil thematic engagement has become a subset of our deforestation thematic engagement. This as well as the other thematic and collaborative engagements are all still ongoing.



2023	In development
<p>Joined Nature Action 100</p>	<p>Publicly reporting credible progress against our nature-related commitments as members of Finance for Biodiversity (FfB) and Financial sector Deforestation Action (FSDA)</p>
<p>Coordination of feedback to TNFD</p>	<p>Application of Deforestation Voting Principles and Guidelines</p>
<p>PRI Circular Economy Reference Group, <i>Member</i></p>	<p>Additional sector specific training for our investment professionals</p>
<p>Publication of Biodiversity Primer</p>	<p>Target setting on nature</p>
<p>Nature-related dependency and impact assessment</p>	<p>Increase investment opportunities in nature-based solutions</p>
<p>Publication of Fidelity's Nature Roadmap</p>	
<p>Bioacoustics study</p>	
<p>Client training and webinars</p>	



To deliver long-term financial performance for our clients, near-term alpha generation must not come at the expense of the long-term resilience and intrinsic value of financial markets. This speaks to our belief that sustainability integration leads to better long-term financial, environmental, and social outcomes for clients and a broad set of stakeholders, as articulated in our [Sustainable Investing Principles](#).

Our sustainable investing beliefs reflect the fact that long-term value creation is affected by system-wide sustainability themes. Nature loss is increasingly acknowledged as a systemic risk to capital markets. It therefore requires responses at multiple levels. We have developed an influence framework to help us identify our nature-related

dependencies, impacts, risks, and opportunities with respect to each of these interconnected levels and to establish how we can align and further our efforts. This is summarised below, with each section described in further detail on subsequent pages.



Table 3: Fidelity’s influence framework: Framing our nature investment strategy

Level of influence	Description	Examples
System-wide	<p>Our economic, social, and ecological systems are interconnected, and affected by nature loss in ways that are not yet fully understood but that have wide-ranging implications for capital markets.</p> <p>As a member of the global financial community, we have a privileged position of knowledge and influence that can be used to inform standards and regulation.</p>	<p>Finance for Biodiversity pledge signatory and foundation member</p> <p>Finance Sector Commitment Letter on Eliminating Commodity Driven Deforestation signatory</p> <p>Signatory to the Financial Sector Statement on Biodiversity for COP15</p> <p>Engagement with third-party initiatives:</p> <ul style="list-style-type: none"> ■ Member of PRI Circular Economy Reference Group ■ Taskforce on Nature-related Financial Disclosures (TNFD) forum member <p>Member of the Business Coalition for a Global Plastics Treaty</p>
Industry, sectoral, and cross-portfolio	<p>Addressing global nature loss is already starting to inform change across industries, particularly in high-impact sectors. We recognise that this change requires cross-sector collaborative efforts to accelerate the necessary transition.</p>	<p>Range of sustainable thematic investment strategies: including Biodiversity, Water and Waste, Climate Solutions, Climate Bonds.</p> <p>Fidelity’s thematic engagement programme: deforestation, plastic pollution, water stewardship</p> <p>Thematic voting: deforestation voting principles and guidelines</p> <p>Collaborative engagement: satellite engagement; sustainable proteins: FAIRR and ARE; forest and land use (AIGCC)</p> <p>Research: bioacoustics study</p> <p>Cross-sector stewardship: deforestation framework</p>
	<p>Recognition of the distinct influence of the financial sector (banks, insurers etc.) as intermediaries who in turn influence industries/sectors.</p>	<p>Fidelity’s thematic engagement programme: deforestation, financial institutions</p>
Firm and entity level	<p>Capital allocation, engagement, and voting can help to redirect financial flows and reduce activity that degrades nature towards nature-positive outcomes.</p>	<p>Fidelity’s proprietary ESG tools: ESG ratings, SDG²⁷ tool, Climate Rating and external research, e.g. ENCORE, CDP, Forest 500 are used to inform:</p> <p>Company engagement and voting</p> <p>Capital allocation</p> <p>Exclusions</p> <p>Quarterly Sustainability Review</p> <p>Sustainable thematic investment strategies</p>
Individual	<p>Individuals’ knowledge, skills, and experience are key to effecting and informing change to address global nature loss.</p>	<p><i>External (clients)</i></p> <p>Client engagement, supported by thought leadership and reporting on our activities</p>
		<p><i>Internal (colleagues)</i></p> <p>Internal training, supported by primer materials, thematic townhalls, and targeted information sessions</p>

²⁷ SDG: Sustainable Development Goals, also known as the Global Goals.

Firm and entity level influence

Proprietary tools

We have developed a suite of proprietary tools to integrate sustainability into our fundamental research, including our ESG rating framework and SDG tool. These tools integrate considerations of nature impacts or dependencies into our investment decisions and risk management.

Our proprietary ESG ratings aim to provide a forward-looking assessment of the extent to which an issuer's performance on material sustainability issues either supports, or is likely to impair, long-term value creation for shareholders. The ratings are forward-looking and our fundamental analysts use them when interacting with issuers and performing due diligence to identify and assess the material ESG risks impacting an issuer.

To complement our ESG ratings, we have developed our SDG tool. The tool provides an assessment of a company's positive contribution to environmental and social outcomes via its products and services (i.e. "what" it does). By comparison, our ESG ratings provide an assessment of "how" an issuer operates, including assessing the potential negative impacts an issuer may have on the environment or society. Therefore, the two tools complement one another and serve to enable us to assess how issuers are managing their sustainability risks (via our ESG ratings), as well as identifying issuers who are contributing to sustainability outcomes (through the use of the SDG tool).

Nature-related issues are explicitly captured in both tools. Within our proprietary ESG ratings framework, nature-related impacts are assessed for those sectors where our investment teams deem it material, with 78 of the 127 sub-industries mapped to at least one explicit nature indicator.

For example, for issuers in high-impact sectors, analysts assess management of terrestrial and marine impacts on biodiversity. Social aspects

are also included, through the assessment of how issuers manage the impact of their operations and/or supply chains on local communities. Furthermore, other contributing factors across biodiversity impacts and dependencies are also considered, for example, water consumption, greenhouse gas (GHG) emissions, and waste management.

Nature-related impacts, including deforestation and water stress, are also included in our sovereign ESG ratings framework, providing an analysis of the extent to which a country is exposed to nature-related impacts, dependencies, and risk, and the associated management of these issues. Our analysis includes consideration of a sovereign's production, consumption, and external influence.

Nature is captured in the SDG tool, through the assessment of the contribution from a corporate's products and services towards relevant SDGs (such as SDG 6 'Clean water and sanitation', SDG 14 'Life below water' and SDG 15 'Life on land'), helping identify potential investment opportunities. More broadly, the SDG tool helps identify issuers tackling drivers of nature loss such as land and sea use change (SDG 14 and 15), direct exploitation (SDG 12 'Responsible consumption and production'), pollution (SDG 3 'Good health and well-being') or climate change (SDG 7 'Affordable and clean energy').

Therefore, we use our ESG ratings framework to ensure we understand how issuers are managing their impacts and dependencies on nature and complement this analysis with the use of the SDG tool to identify companies who may be contributing positively to nature-positive outcomes.

In addition to our proprietary sustainability tools, we also leverage a range of external tools and data sets to inform our understanding of companies' nature-related risk exposure and management.

Issuer level stewardship and voting

When it comes to pursuing positive change with respect to addressing global nature loss, our engagement edge continues to rely significantly on the firm's integrated fundamental research process. Our scale and long-standing company relationships give us the opportunity to engage directly with senior decision makers.

We favour an engagement-led approach to influencing change at companies. However, where companies' actions and efforts are deemed inadequate, we intensify our dialogue, for example through engaging in collaboration with other investors and writing formal letters to issuers expressing our concerns. Where we have equity holdings, we can also express our position through voting and shareholder resolutions. Equally, through voting, our aim is to support companies that are making progress.

As stated in our [Voting Principles and Guidelines](#)²⁸, we will vote against directors where they have clearly failed to manage or implement the capabilities to monitor and assess their material nature-related impacts and dependencies, including companies involved in severe nature-related controversies. To address company specific issues on nature, we will consider supporting shareholder resolutions on key environmental issues including climate, nature, and deforestation, in addition to our ongoing bilateral dialogues with companies. In addition, we also target nature-related cross-sectoral issues through the application of our Voting Principles and Guidelines as discussed in the next section.

²⁸ Update to be reflected in Voting Principles and Guidelines published in Q423

Case study

In line with our Voting Principles and Guidelines, in 2022 Fidelity voted in favour of a shareholder resolution at Home Depot on deforestation. The resolution garnered 64.7% of the votes cast. The resolution asked Home Depot to issue a report 'assessing if and how it could increase the scale, pace and rigour of its efforts to eliminate deforestation and the degradation of primary forests in its supply chains.'



Capital allocation: Fidelity's Sustainable Investing Framework

To complement our suite of bottom-up issuer level research tools, we have a range of tools to integrate nature-related risks and opportunities into our product range, portfolio construction, and risk management process.

The Fidelity Sustainable Investing Framework provides a clear set of quantitative and qualitative requirements based on the sustainability objectives of the investment strategy, as illustrated below.

Table 4: Examples of nature-related considerations by type of ESG investing approach

ESG investing approach	Description	Nature-related example
ESG integration	Consideration of material ESG information in the investment process that can include: 1) ESG ratings; 2) climate scenario analysis; and 3) data on Principal Adverse Impacts (PAIs).	FIL's internal ESG ratings include a range of metrics concerning nature-related issues. For example, an issuer could be flagged as having high exposure to, and poor management of, water stress. This could negatively impact a portfolio manager's assessment of its investment case and could be a catalyst for engagement with the issuer to better understand exposure and management of the risk.
ESG leaders	Use of ESG ratings or individual metrics to direct investment towards issuers with strong performance, either in an absolute sense, relative to peers, or relative to an investment universe.	When deciding between investments in the consumer staples sector, a portfolio manager's investment process tilts investments towards issuers that have a credible programme to eliminate deforestation in their supply chain.
Sustainable thematic & impact	Invests in assets aligned to a specific sustainable theme or objective (thematic), or specific and attributable outcomes (impact).	Our Biodiversity portfolio invests in an issuer that recycles cellulose-based textiles waste back to regenerated fibre, hence reducing the environmental impact from textiles (water, land, pollution) and promoting a circular economy.

As a baseline, nature is embedded in our fundamental research for relevant sectors through our ESG ratings, which are used to inform investment decision making and portfolio construction.

In addition, our investment strategies can be monitored for sustainability risks by also considering Principal Adverse Impacts (PAIs). PAIs include several nature-related indicators, such as the strategy's greenhouse gas, water, and hazardous waste emissions, as well as assessment of exposure to issuers that have operations located in biodiversity sensitive areas and are involved in controversies with

severe impact on the environment. Through integrating material nature-related issues in our fundamental bottom-up research and top-down investment frameworks, this serves to inform more responsible capital allocation.

Sustainable thematic and impact investment strategies

As defined through Fidelity's Sustainable Investing Framework and associated product architecture, we offer our clients a range of sustainable thematic and impact investment strategies. This range invests in issuers that provide solutions to address key sustainability challenges such as nature loss,







water stress, and climate change. Through targeted active management, we aim to provide investors with exposure to the structural growth opportunities represented by these themes.

Within our range of sustainable thematic investment strategies, we offer a selection of capabilities that specifically target nature-related issues and solutions, including Biodiversity, Water and Waste, Circular Economy, Climate Solutions and Climate Bonds. Our impact investment range includes a real estate climate impact strategy and we are also complementing our active strategies with a range of passive strategies targeting nature-related themes, such as Clean Energy and Reduced Water Risk.

With respect to nature, we have built a framework, as illustrated below, to provide an overview and examples of the challenges that investing in nature can help solve.

Within our range of sustainable thematic investment strategies, we offer a selection of capabilities that specifically target nature-related issues and solutions, including Biodiversity, Water and Waste, Circular Economy, Climate Solutions and Climate Bonds.

Figure 3:

Causes of biodiversity loss		Investable solutions (illustrative)		
	Changes in land & sea use	Agriculture efficiency	Alternative protein & fat	Reduce food waste
	Direct exploitation	Fish farming	Sustainable fish feed	Circular water usage
	Climate change	Clean & autonomous transport	Efficiency (industrial / Agricultural)	Building Insulation
	Pollution			
	Plastic	Increased goods useful life	Recycling	Biodegradable/ recyclable material substitution
	Agricultural chemicals	Agricultural efficiency	Organic farming	Greenhouse & vertical farming
	Industrial/ home chemicals	Waste-water treatment	Less harmful formulations	
	Invasive species		Ballast water treatment	
	Transitioning companies	Transitioning companies through improvement of own operations / through R&D into new biodiversity friendly solutions		

The Quarterly Sustainability Review

To complement our sustainable product architecture, the Quarterly Sustainability Review (QSR) was designed to further strengthen the authentic integration of sustainability throughout Fidelity's range of strategies with a sustainability tilt or focus²⁹. The QSR provides a regular and structured forum to discuss key sustainability aspects of the portfolio and its holdings, including whether the fund is meeting its sustainability objectives and how best to monitor and improve its outcomes.

We have joined Nature Action 100, a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss.

Considerations of nature are addressed where relevant in the discussion and analysis, including a review of the fund-specific sustainability objectives, relevant engagement and voting activity, the fund's ESG and Climate Rating profile, as well as the inclusion of PAI and controversies data.

Industry, sectoral and thematic influence

Thematic and collaborative engagement

In addition to bilateral engagement on company specific issues, we also use our influence and conduct stewardship activities to address

material sustainability themes that cut across sectors and regions.

We have joined Nature Action 100, a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. As such we support their sector agnostic investor expectations.

Nature Action 100 investor expectations³⁰

- 1. Ambition:** Publicly commit to minimise contributions to key drivers of nature loss and to conserve and restore ecosystems at the operational level and throughout value chains by 2030.
- 2. Assessment:** Assess and publicly disclose nature-related dependencies, impacts, risks, and opportunities at the operational level and throughout value chains.
- 3. Targets:** Set time-bound, context-specific, science-based targets informed by risk assessments on nature-related dependencies, impacts, risks, and opportunities. Disclose annual progress against these targets.
- 4. Implementation:** Develop a company-wide plan on how to achieve targets. The design and implementation of the plan should prioritise rights-based approaches and be developed in collaboration with Indigenous Peoples and Local Communities when they are affected. Disclose annual progress against the plan.
- 5. Governance:** Establish board oversight and disclose management's role in assessing and managing nature-related dependencies, impacts, risks, and opportunities.
- 6. Engagement:** Engage with external parties including actors throughout value chains, trade associations, policy makers, and

²⁹ Eligible portfolios: Fidelity Sustainable Family Funds, SFDR Article 8 and Article 9 strategies

³⁰ Source: [NA100](#)

other stakeholders to create an enabling environment for implementing the plan and achieving targets.

We believe industry collaboration is imperative to support our ambition to reduce nature loss and redirect financial flows towards nature positive outcomes. As such, to complement our own thematic engagement programme, we also participate in a range of investor initiatives and collaborative engagement programmes.

Key issues we address through thematic and collaborative engagement include deforestation, plastic pollution, sustainable proteins, water stewardship, and sustainable fashion.

For example, in 2020, we joined a collaborative engagement led by Cardano (formerly ACTIAM)³¹. The investor group partners with Satelligence, a company that uses satellite images and artificial intelligence to identify cases of deforestation across palm oil supply chains, to inform evidence-based engagement. The engagement programme enables financial institutions to challenge and work with companies using real-world data to enhance traceability and disclosure and reduce deforestation in the supply chain. The innovation around the engagement was recognised at the UK's Environmental Finance Awards 2021, where it won 'ESG Engagement Initiative of the Year'.

In addition, we are also part of nature-related engagement initiatives led by Ceres, FAIRR, ARE, and the PRI. We report on our thematic and collaborative engagement activity in our quarterly Sustainable Investing Reports and annual Sustainable Investing Reports. Key issues we address through thematic and collaborative engagement include deforestation, plastic pollution, sustainable proteins, water stewardship, and sustainable fashion.

³¹ [ACTIAM engagement program Land & biodiversity](#)

Fidelity's Deforestation Framework

Executive summary

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 management³², in signing the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation³³.

We made this pledge because we understand the importance of assessing and addressing deforestation risks in our investment strategies, having engaged with investee companies on palm oil-related deforestation risks since 2019. While addressing deforestation is no simple task, we recognise the critical role forests play in achieving net zero and biodiversity preservation.

Our Deforestation Framework explains how we plan to engage with stakeholders to address agricultural commodity-driven deforestation risks across investment strategies in a way that aligns with our active, bottom-up research approach to investing. It also defines our minimum expectations of exposed investee companies, the objectives of our engagements, and our escalation approach where companies do not meet expectations, in line with our updated Voting Principles and Guidelines. The Deforestation Framework should be considered within the context and scope of our overarching Sustainable Investing Principles document³⁴.

Introduction

Forests play a critical role in climate change mitigation, biodiversity protection, and in supporting livelihoods. Deforestation and forest degradation drive an estimated 11%³⁵ of global CO₂ emissions, largely a result of tropical deforestation linked to 'forest-risk' agricultural commodities: palm oil, soy, beef, and pulp and paper, which represent 8% of all GHG emissions, more than those of the European Union.

Conversely, forests are important carbon sinks, holding 80% of the Earth's above-ground terrestrial carbon and 40% of below-ground terrestrial carbon³⁶. Emissions from deforestation happen quickly whereas carbon removal from planting new trees takes time³⁷. So, while reforestation and afforestation are important, we must focus on ending deforestation as an integral part of achieving net zero GHG emissions. Forests are also home to 80% of the world's animals and plants, playing a vital role in biodiversity protection. Yet despite forests' critical role in climate change mitigation and biodiversity preservation, we lost 420 million hectares of tree cover between 1990 and 2020³⁸. All told, changes in land and sea use, where deforestation is a contributing factor, cause 30% of all biodiversity loss³⁹.

³² nature-and-tackling-deforestation - Climate Champions (unfccc.int)

³³ DFF-Commitment-Letter.pdf (unfccc.int)

³⁴ sustainable-investing-principles.pdf (euissmultisiteprod-live-8dd1b69cadf7409099ee6471b87c49a-7653963.s3-eu-west-1.amazonaws.com)

³⁵ IPCC, 2019, Climate Change and Land: an IPCC special report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems [P.R. Shukla, J. Skea, E. Calvo Buendia, V. Masson-Delmotte, H.-O. Pörtner, D. C. Roberts, P. Zhai, R. Slade, S. Connors, R. van Diemen, M. Ferrat, E. Haughey, S. Luz, S. Neogi, M. Pathak, J. Petzold, J. Portugal Pereira, P. Vyas, E. Huntley, K. Kissick, M. Belkacemi, J. Malley, (eds.)]

³⁶ [What is REDD+? | Forest Carbon Partnership](#)

³⁷ [What is REDD+? | Forest Carbon Partnership](#)

³⁸ FAO. 2022. The State of the World's Forests 2022. Forest pathways for green recovery and building inclusive, resilient and sustainable economies. Rome, FAO.

³⁹ Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), 2019

Why deforestation matters to investors

Given the intersectionality of deforestation with respect to climate change and nature loss, deforestation poses a range of risks for investee companies. These risks include:

- **Systemic risks:** Deforestation poses significant risk to climate change and biodiversity loss, both of which will likely impact investee companies and sovereigns.
- **Physical risks:** Forests play a critical role in regulating ecosystems and provide natural resources from which we derive economic benefit. Their decline could result in a range of physical risks, including but not limited to: more extreme weather events, soil degradation, and reduced access to raw materials. This will likely impact companies' supply chains, operations, and profitability, as well as sovereign creditworthiness, as economic consequences play out.
- **Legal and reputational risks:** Companies whose activities are associated with instances of deforestation may be subject to regulatory restrictions on their activities and backlash from consumers and other stakeholders, while they may also be subject to litigation risk as impacted parties claim compensation for associated damages and breach of these regulations. Similarly, sovereign issuers who fail to manage deforestation risks may be subject to legal and reputational risks, resulting in higher borrowing costs and reduced fiscal capacity.
- **Capital market risks:** As more investors pledge to eliminate deforestation from their portfolios, access to capital for companies and sovereigns whose activities are associated with deforestation are expected to become more limited.

To end deforestation across all commodities by 2030, in line with the country-level pledges made at COP26, we believe collaborative effort and co-ordinated action is needed now across policy makers, business, technology, investors, and civil society.

Fidelity's role and approach

Our fiduciary role is to safeguard and enhance the assets that we manage. In the context of deforestation, this means understanding the key risks and their potential impact on the investments we make and ensuring that issuers integrate those risks into their business decisions. We believe the biggest impact we can have is through investment and engagement. Divestment and exclusions can be useful tools in the right circumstances but can result in unintended consequences. Instead, by engaging with companies exposed to deforestation risks, we believe that we can drive more impact.

We have conducted an initial assessment of exposure to deforestation risk, considering high-risk companies, and widened the scope of our long-standing thematic engagement on palm oil to create our deforestation thematic engagement, incorporating key forest-risk agricultural commodities: palm oil, soy, beef and leather, and pulp and paper. Where companies in scope do not meet our minimum expectations, we intend to hold members of the board accountable through voting from 2024.

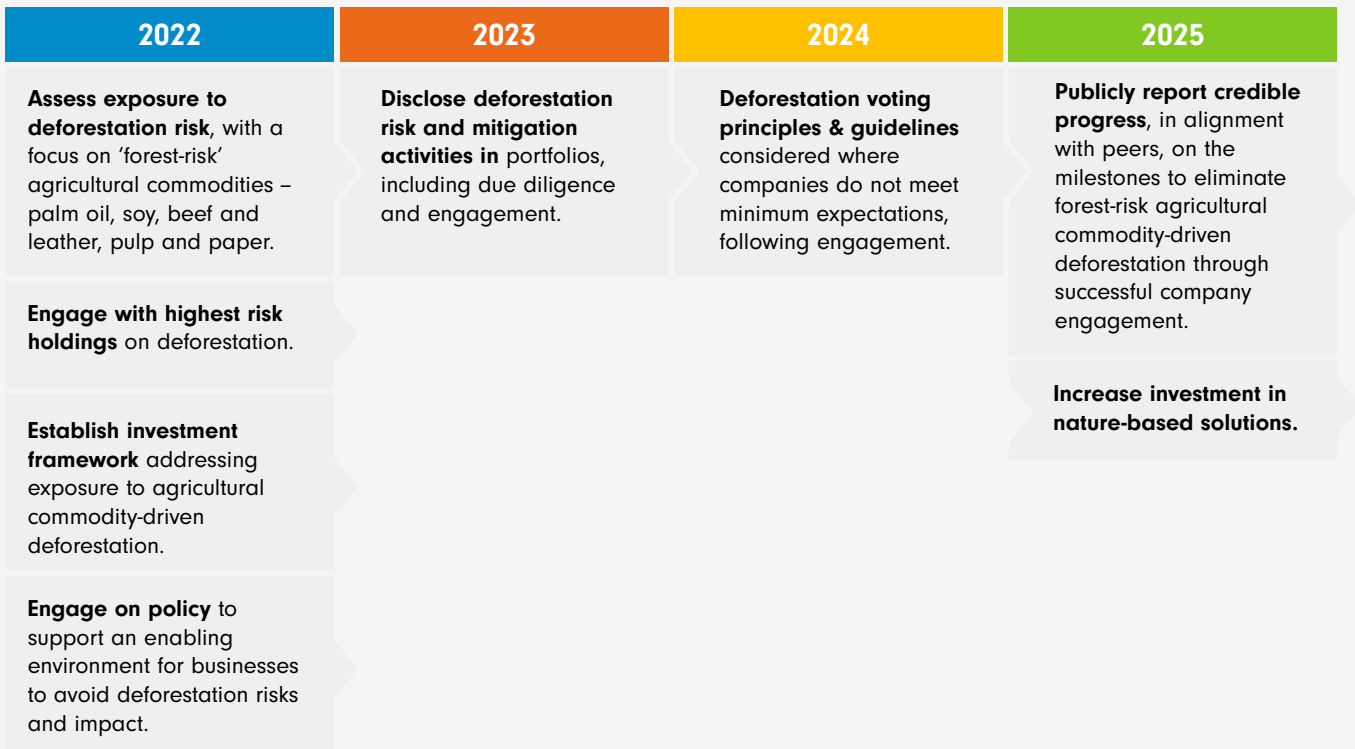
Finally, addressing deforestation also means directing capital to where it will have a positive impact and investing in those companies that are spearheading the transition to a more sustainable economy. We believe that investing in solutions to address the nature crisis represents a significant investment opportunity.

Fidelity’s deforestation commitments

To meet our commitments, we plan to follow the roadmap outlined in Figure 4, which details our engagement-led approach.

As data availability improves and the pace of innovation increases, we will continue to review our framework to ensure we remain ambitious and able to respond to significant developments in the space.

Figure 4:



Deforestation and stewardship

Fidelity takes an active approach to ownership and stewardship. Engagement is a key pillar of this approach. Deforestation has long been a focus of our engagements. Fidelity has run a thematic engagement on palm oil since 2019, advocating for an end to tropical deforestation.

In 2022, we widened the scope of our existing palm oil thematic engagement to create a deforestation thematic engagement covering the key forest-risk commodities identified by the pledge: palm oil, soy, beef and leather, and

pulp and paper. Our deforestation thematic engagement prioritises companies with weak practices that are materially exposed to potential tropical deforestation risk. We also prioritise our engagements based on our holdings.

To identify our target list of organisations, we leveraged third-party data, including Global Canopy’s Forest 500 data⁴⁰, to determine those companies and financial institutions most exposed and able to influence tropical deforestation risk, complemented by bottom-up due diligence by our analysts.

⁴⁰ Forest 500 assessment data [2021], Global Canopy, [Forest500.org](https://www.globalcanopy.org/forest500/)

To address agricultural commodity-driven deforestation risks we are focused on encouraging boards to act on the issue as a matter of urgency, communicating the practices we highlight within 'investor expectations' below. We will continue to report on the progress of our deforestation thematic engagement in our quarterly stewardship report and in our annual sustainability reporting.

We plan to vote against members of the board at companies in high-risk sectors that do not adequately meet our deforestation-related expectations.

Investor expectations

We believe that corporate disclosure around deforestation exposure and risks must improve. To effectively manage deforestation risk, organisations with material direct or indirect deforestation exposure should have practices covering material key forest-risk commodities (including: palm oil, soy, beef and leather, pulp and paper) that include:

1. Assessment and public disclosure of deforestation risk and a plan to address the risk
2. A timebound deforestation-free commitment
3. Effective supply chain traceability and engagement
4. Monitoring and disclosure against deforestation commitments
5. Board-level oversight of forest related issues

Policy engagement

Through our engagements with corporates and our research, we have identified policy barriers that impede supporting an enabling environment for businesses to address deforestation risks and impacts. Governments are already working to address these policy barriers, but more work needs to be done. We work bilaterally and collaboratively with other investors and stakeholders to engage with policy makers, supporting national and international policy efforts to end deforestation and minimise the risks deforestation presents for the companies we invest in and for our clients, with the overall goal of promoting a nature-positive future. In addition, as detailed on p. 33, we also engage with policy makers and regulators on broader nature and climate-related issues.

Voting

We believe companies should meet minimum standards of deforestation oversight, practice, disclosure, and action on deforestation disclosures and activities. Acknowledging that companies and financial institutions influence deforestation in different ways, we have determined separate investor expectations for financial institutions to reflect these differences.

Following continued deforestation-related engagement in 2023, we intend to begin the application of our voting principles and guidelines on deforestation effective from 2024.

Companies (excluding financial institutions)

We plan to vote against members of the board at companies in high-risk sectors that do not adequately meet our deforestation-related expectations. We will take into account the

company's position within the supply chain, industry exposure, operating and supply chain location, engagement progress, and the urgency with which we believe they should be addressing deforestation.

We believe that companies with material exposure to deforestation, whether in direct operations or indirect exposure in their supply chain, should be disclosing information covering material key forest-risk commodities (including: palm oil, soy, beef and leather, pulp and paper), on the following:

- A timebound commitment to be deforestation-free
- An approach to deforestation or plan underpinning the timebound commitment

Financial institutions

We plan to vote against members of the board at Globally Systemically Important Banks and banks located in high deforestation risk markets that do not adequately meet our minimum deforestation-related expectations. We will take into account the financial institution's industry exposure, geographical footprint, engagement progress, and the urgency with which we believe they should be addressing deforestation.

- We believe that financial institutions with material exposure to deforestation via their financing activities should recognise deforestation as a material business risk.

In time, we will increase our expectations of companies and financial institutions in line with emerging best practice.

We believe that companies with material exposure to deforestation, whether in direct operations or indirect exposure in their supply chain, should be disclosing information covering material key forest-risk commodities.

System-wide influence

System-wide stewardship recognises that healthy capital markets rely on a healthy economy, society, and environment. These are interrelated; our economy is dependent on the environment and society, which are in turn impacted by the economy.

The aim of the Coalition is to develop ambitious policy recommendations, engage with treaty negotiators, and build confidence in the business community on the benefits and necessity of an effective treaty.

Our system-wide stewardship efforts recognise that to deliver on global sustainability objectives, such as those set out in the Kunming-Montreal Global Biodiversity Framework (GBF), policy makers and regulators have an important role to play. As such, to complement our bottom-up company level engagement, we also engage at the system level on key nature-related issues. We believe this 'top-down/bottom-up' approach is an effective way to influence change, pressing companies to increase their ambition, while helping to shape the incentives to enable that change. For example, to complement our ongoing thematic plastic packaging engagement, in 2021 we supported the call for a Global Plastics Treaty and have

since followed these developments as a member of the Business Coalition for a Global Plastics Treaty⁴¹. The aim of the Coalition is to develop ambitious policy recommendations, engage with treaty negotiators, and build confidence in the business community on the benefits and necessity of an effective treaty. Through advocating for a treaty that sets common goals, rules, and obligations, this serves to enhance the impact of our engagement with companies by shaping a supportive policy landscape to help companies embed the principles of the circular economy in their business models.

In addition, we are also signatories to, and active participants in, several key industry initiatives that are focused on improving the financial sector's understanding and action on nature. We identify our participation in initiatives based on their relevance to our sustainable investing priorities, proactive policy asks, and potential for additionality (both of the initiative itself and the value that we can offer to the initiative). Below we detail our key nature-related initiatives.

⁴¹ [Business Coalition for a Global Plastics Treaty \(businessforplasticstreaty.org\)](https://businessforplasticstreaty.org)

Table 5: Key nature-related initiatives

Initiative name	Fidelity participation	Description
The Finance for Biodiversity Foundation	Pledge signatory and Foundation member	In 2021, we became a signatory of the Finance for Biodiversity pledge. The pledge now brings together over 150 financial institutions representing €21.4 trillion AuM, committing to collaborate and knowledge share, engage with companies, assess impact, and set targets to report on biodiversity matters before 2025. We are active participants in four working groups on Engagement with Companies, Impact Assessment, Public Policy Advocacy and assume the role of co-chair for the Target Setting group. Fidelity's Chief Sustainability Officer also sits on the Finance for Biodiversity Foundation's Advisory Board.
Financial Sector Deforestation Action (FSDA)	Signatory	At COP26 in 2021, we signed the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation, an initiative now named Financial Sector Deforestation Action (FSDA). As a signatory, we are committed to use best efforts towards the goal of eliminating forest-risk agricultural commodity-driven deforestation activities in investment portfolios by 2025 via engagement and stewardship.
Taskforce on Nature-related Financial Disclosures (TNFD)	Forum Member	The TNFD aims to deliver a risk management and disclosure framework to incorporate evolving nature-related risks. This is expected to promote a shift in global financial flows away from negative nature outcomes to nature positive outcomes.
WWF Biodiversity Risk Method for Investors	Advisory Investor Group Member	We were a part of the investor advisory group helping to highlight the financial industry's needs. Its goal was to develop a methodology to allow investors to actively manage nature-related financial risks for assets and across portfolios.
PRI Circular Economy Reference Group	Member	We are a member of the PRI Circular Economy Reference Group, convening investors to raise awareness of the risks and opportunities associated with the transition to a circular economy and to encourage investors to adopt a circular economy in their investment strategies and investment decision-making process.
The Business Coalition for a Global Plastics Treaty	Member	In 2021, we supported the call for the UN to develop a global treaty on plastic pollution, which was approved by 200 countries at the United Nations Environment Assembly (UNEA). We have since joined the Business Coalition for a Global Plastics Treaty, a group of corporates, financial institutions, and non-governmental organisations, convening as an advisory body to support the development of an ambitious and effective global treaty to end plastic pollution.

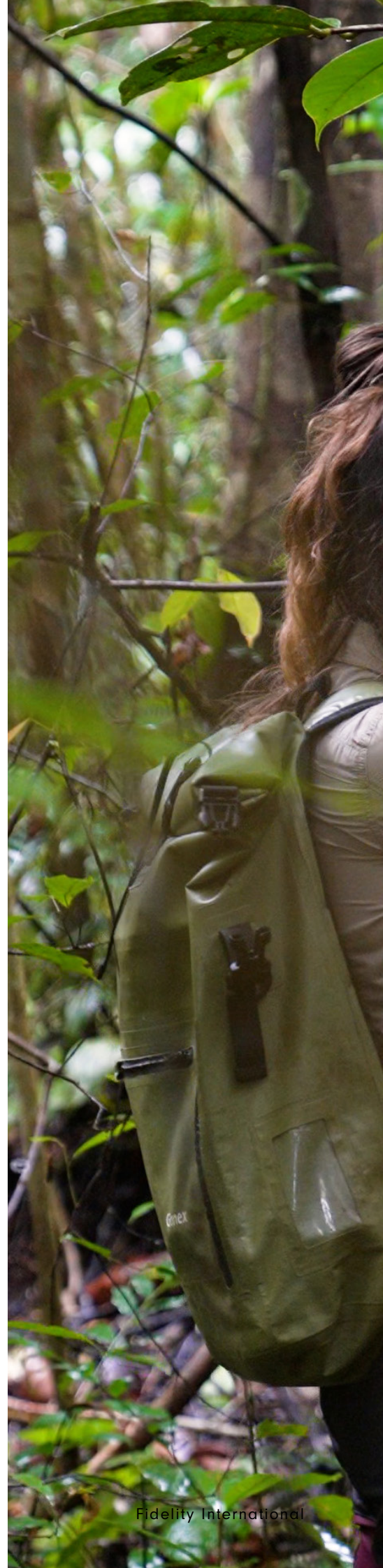
Data availability: Research and engagement with data providers

It is important to acknowledge that nature-related risk analysis and our ability to 'value nature' is still in its early stages. Unlike climate change and GHG emissions, nature loss is hard to measure with a single metric.

While in many sectors interactions with nature remain underappreciated and challenging to measure, in some sectors, such as extractive industries, there is a plethora of existing nature-related data. However, in most instances this data is not publicly or consistently disclosed, hindering decision-useful analysis at the issuer and portfolio level.

To address these challenges, we engage with ESG data providers and other stakeholders to encourage greater provision of nature-related metrics. For example, we engaged with the TNFD in the development of their Nature-related Data Catalyst, helping to identify the nature-related data needs of financial institutions. We have also engaged with financial and ESG data providers to highlight the need to close the nature data gap, to unlock more decision-useful data on nature to help shift financial flows away from nature-negative outcomes towards nature-positive outcomes. In addition, we recognise the role that nature-based financial and non-financial reporting must play. As such, we led the feedback on behalf of Finance for Biodiversity Foundation members to the TNFD during the development of the framework, reflecting financial institutions' need to ensure that the framework was fit for broad-based market adoption once finalised.

Despite the challenges, there are innovative solutions for measurement and monitoring of nature loss emerging. We recognise the role that financial institutions can play as intermediaries who connect the scientific community leading the development of solutions to measure biodiversity with companies who own the land and are involved in the activities that impact biodiversity. As such, in partnership with three other investors we are co-sponsoring a collaborative project using bioacoustics technology to measure biodiversity impacts (see focus box). The aim of the project is to develop a new biodiversity metric using sound recordings to better understand impacts and risks associated with land-use developments of investee companies.





Wild for sound: plugging biodiversity's data deficit

In partnership with three other investors, we are co-sponsoring a collaborative project using bioacoustics technology with the aim of developing a new biodiversity metric that uses sound recordings to measure and monitor biodiversity.

The initial pilot study, which analysed conservation areas and production plots in Borneo, has produced encouraging and clear results. To distinguish between the elements in the recordings, the scientists created visual representations (or spectrograms) of the sounds. These spectrograms allow the 'sounds to be seen' and are compiled to inform biodiversity levels using innovative techniques.

The study found that the conservation areas and production plots produced notably different acoustic landscapes. Production plots were dominated by monotonous insect activity, primarily cicadas, and no mammals were detected. The absence of large mammals such as gibbons in production plots is a very important indicator of the degraded state of agricultural areas, since primates play vital roles in ecosystem structure, function, and resilience. By contrast, conservation and control plots were populated by much richer biodiversity, including primates.

The results also indicated that conservation plots may not demonstrate the same quantity of acoustic events compared to control plots. Globally, these results corroborate earlier academic findings that conservation efforts by companies are valuable in terms of restoring biodiversity, however they cannot replace the protection of natural, pristine forests.

Planning for the next phase of the project, to scale and proof test the initial findings, is already underway. The group of investors intends to be able to use insights from the project to inform more responsible land management practices and aid effective engagement with investee companies to promote more sustainable management.

Individual influence

We recognise that the influence of individuals is key to effecting change. The social, environmental, and economic consequences of nature loss are less well understood and appreciated by comparison to other environmental and social systemic risks. This calls for a need to establish a baseline understanding of key concepts across our organisation and for our clients, such that all relevant stakeholders can make better-informed decisions.

We regularly update clients on our sustainability activities through our quarterly and annual sustainable investing reports in which we include examples of our progress on key sustainability themes such as biodiversity and deforestation.

As such, we host regular training sessions and webinars to address identified knowledge gaps, including tailored internal training sessions for our investment and distribution teams, and we also publish training manuals and primers.

We regularly engage with clients on nature-related issues through training sessions and one-to-one meetings, explaining key concepts and our evolving nature-related investment strategy, both as it relates to our overarching investment process and to our tailored product offering of funds that address key nature-related issues. We have also developed client content and thought leadership to support clients' knowledge on this topic.

We regularly update clients on our sustainability activities through our quarterly and annual sustainable investing reports in which we include examples of our progress on key sustainability themes such as biodiversity and deforestation. We share nature-related engagement examples and any outcomes of engagements we have undertaken. We continue to review our reporting capabilities and will seek to evolve our reporting to incorporate additional nature-related information and engagement and voting examples to align with emerging market standards, such as the TNFD and ISSB recommendations, and regulatory requirements.

In addition, the quarterly sustainability reviews for funds ensure oversight from the relevant chief investment officers on the integration and management of sustainability issues, including nature, at the portfolio level.

Considering nature and biodiversity in our operations

Our goal is to conduct current and future business operations in a sustainable manner that helps create a better future for the environment. As such, reducing the environmental impact of our own operations is a key part of our sustainability strategy.

We conduct environmental impact assessments to ensure that all the significant environmental impacts, both positive and negative, of our operations are considered and controlled. Each of our sites is required to complete an environmental aspects and impact register at least annually or when there is a major change to operations. Environmental aspects include emissions to air, releases to water, contamination of land, waste management, water and energy use, raw materials use, chemical use, storage on site, and transportation.

To provide clear strategic direction and accountability, we have set ourselves a range of environmental targets, through to 2030, which we report on annually in our [Corporate Sustainability Report](#).

Climate

In 2021, we committed to achieve net zero corporate operations by 2030. To achieve this, we aim to reduce emissions from our business operations through meaningful corporate transformation, including:

- **Data verification and transparency** - Our GHG inventory is managed in accordance with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and is independently verified on an annual basis by the British Standards Institute (BSI).

- **Energy efficiency** – Energy usage from our office is the largest contributor to our operational emissions. We have formalised action plans following decarbonisation audits at our key locations.
- **Air travel** – This is the second largest contributor to our operational emissions. We continue to monitor air travel and have also introduced stricter policies, especially for internal meetings, to help manage emissions.
- **Renewable energy** - Renewable energy use is a key element of our strategy. In 2022 we sourced over 90% of our electricity from renewable sources, up from 2% in 2019. We continue to look at ways in which we can increase this, including onsite renewable energy generation at sites we own.

In addition to the long-term net zero goal, we have set several interim 2024 targets including **25% reduction in energy consumption** and **50% reduction in air travel-related carbon emissions** versus a 2019 baseline.

Waste

As part of our corporate sustainability commitments we have committed to reduce waste by 25% and increase recycling rates to 80% by 2024 compared to a 2019 baseline. We have made progress towards our target, informed by key initiatives including the removal of disposable cups from a number of offices, reducing food waste within our catering facilities, and providing excess food to local charities, reducing single use plastics in our offices, and waste stream analysis to inform initiatives to name a few examples.

Nature

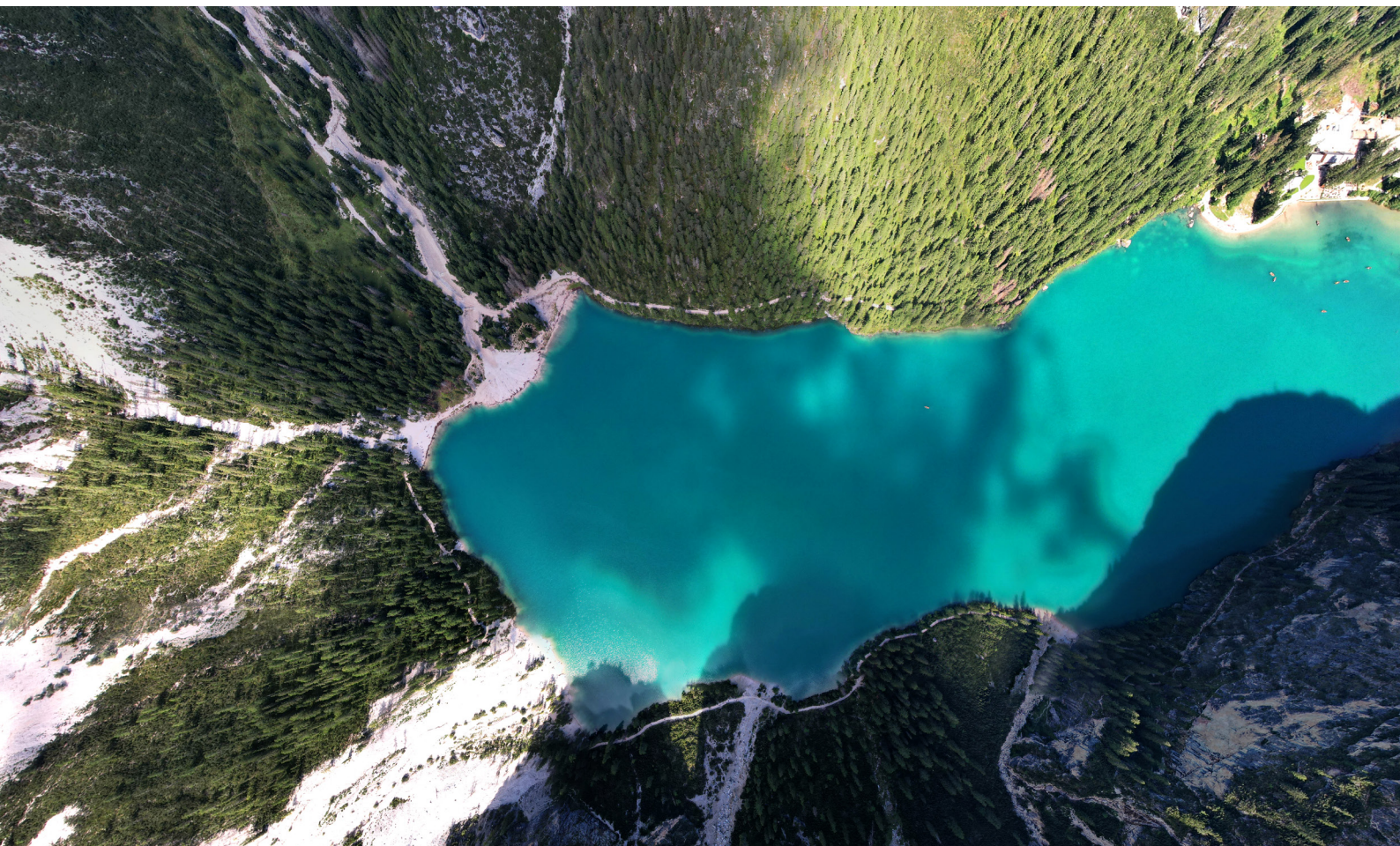
We are working to improve the environmental management of our offices. For example, in our offices in Kronberg in Germany and at those in London and Surrey in the UK, we have installed bee hives to support local wildlife populations. In addition, our Surrey campus is home to an ancient woodland. Our ground maintenance team conducts ongoing monitoring and management to ensure its protection.

Future priority areas

Looking forward, we want to continue our progress and ensure that we remain on track through the implementation of key projects and engagement with employees and local communities.

As such, we will continue to build out our energy and carbon project 2030 roadmap, including a feasibility study for the installation of a solar farm at our Surrey campus, implementing additional energy efficiency projects identified

in our decarbonisation audits, and planning for electrification of heating systems where feasible. We plan to further engage with management teams and employees on our key environmental goals, specifically on areas where they can have a material contribution such as business travel.



Governance on nature-related issues

The review and oversight of sustainable investing matters, including nature, are vested in the Sustainable Investing Operating Committee (SIOC). Accountability for sustainable investing sits across all levels of Fidelity's governance structure.

The Board's oversight of sustainability

The most senior decision-making body within the Group is the FIL Limited Board (hereafter 'Board'). The Board sets overall strategy and oversees management's execution of the defined strategic goals. The Board's mandate includes:

- Setting corporate and strategic objectives
- Setting Group policies
- Ensuring that a robust system of internal controls exists throughout the Group, including its subsidiaries
- Ensuring the financial stability of the firm

The Board has delegated the management of sustainability-related objectives, controls, and risk structures, including nature-related risks and opportunities, and the associated integration with business strategy to the CEO. The Board has further mandated the establishment of appropriate governance systems and controls to support the strategy.

Management's role in assessing and managing nature-related risks and opportunities

The Group has established two executive-level committees to oversee ESG risks, which include nature-related risk: the Corporate Sustainability Committee (CSC) and the Sustainable Investing Operating Committee (SIOC). The CSC and the SIOC report directly to the Global Operating Committee (GOC), with functional oversight for the CSC with the Group General Counsel and for the SIOC with the Group Chief Investment Officer. The GOC is the most senior management committee responsible for implementing and executing the Group business strategy, including nature and wider sustainability as a central consideration. Further detailed information on the responsibilities of these committees is included in our Sustainable Investing Principles, which set out the Group's three-layered framework for integration of sustainability, including nature considerations, within the investment process.

In addition, the quarterly sustainability reviews for funds ensure oversight from the relevant chief investment officers on the integration and management of sustainability issues, including nature, at the portfolio level.



Our Nature Roadmap: looking forward

Firm and entity level influence: enhancing the way we integrate nature into our fundamental research, investment process, and the solutions that we offer our clients

Building on the foundational work that we have done to integrate nature into our fundamental research, investment process, and the solutions that we offer our clients, we have a busy pipeline of initiatives to drive forward our approach.

Proprietary tools

We continue to enhance our proprietary ESG tools to ensure they align with the best available practices.

In 2023, we conducted a comprehensive review of the materiality mapping of our ESG ratings, using the ENCORE tool to identify the most material drivers per sector, complemented by bottom-up sectoral analysis and guidelines. Following this review, we will host tailored training sessions for our fundamental analysts, to ensure a consistent approach to assessing nature-related issues. Going forward, we will continue to review the materiality mapping to ensure it is aligned to the latest science, especially as the likes of the Science Based Targets Network (SBTN) develop sectoral pathways on nature.

In 2023, the EU Taxonomy criteria for all six environmental objectives were finalised. All six objectives either directly or indirectly relate to nature: climate change adaptation; climate change mitigation; transition to circular economy; pollution prevention and control; sustainable use and protection of water and marine resources; and protection and restoration of biodiversity and ecosystems. As companies start to report in line with the EU taxonomy, this will provide greater insight as to how companies are contributing to the relevant nature-related objectives, serving as inputs to further refine and enhance our SDG model. In addition, as science-based targets develop and mature, we will consider the opportunity to integrate validated SBTN targets as an additional eligibility route in our sustainable investment model, with a focus on targets from issuers in high nature-impact sectors to ensure materiality.

External tools and data

The data landscape for nature-related issues is rapidly evolving, with well-established financial and sustainability data providers developing new nature-related data sets, as well as incumbent players. Navigating this fast-moving landscape to identify quality, decision-useful datasets that strike the balance between offering wide-enough scope of coverage with granularity of information is challenging. Existing datasets have several

limitations, the most important of which is the lack of location specific information particularly when considering nature impacts and dependencies within supply chains.

With these considerations in mind, we continue to review the available metrics and datasets from our existing financial and sustainability data providers, as well as exploring potential alternative and additional providers, with a view to enhancing the granularity of the impact and dependency assessment that we have already done. In addition, we will continue to engage with financial and ESG data providers to encourage greater availability of nature-related data and to advocate for consistent corporate disclosures in our engagements with companies, policy makers and regulators, standard setting bodies, and other key stakeholders.

Capital Allocation: Fidelity's sustainable product architecture

As the data landscape matures, we aim to leverage new - or improvements to - internal and external nature-related tools (see prior sections) to both enhance how nature-related risks and opportunities are integrated across our existing range of strategies and support the development of new nature-related strategies.

Below are the actions we have already identified to enhance how we assess nature-related risks and address related opportunities in our sustainable product architecture.

Developing our range of sustainable thematic investment strategies*

In addition to our existing range of sustainable thematic investment strategies that focus on nature-related themes, we are exploring additional opportunities to invest in nature. One of these is through the development of our range of strategies that use our SDG tool and Sustainable Investments model to select investments.

Building on the framework that we have developed to identify companies that are sustainable investments as defined under the EU's Sustainable Finance Disclosure Regulation (SFDR), we have been expanding our sustainable investments coverage to more financial instruments and asset classes, including, for instance, supranational issuers and private assets. We are also exploring developing a model for sovereigns that would help identify material contributions from sovereign issuers to positive environmental or social outcomes, enhancing our sustainable thematic fixed income capabilities.

Under SFDR, we are building a suite of Article 9 strategies, which are strategies that have sustainable investment as their objective. This suite covers global equities and fixed income, but also key regions (US, Asia, Eurozone), all directing capital to issuers that contribute to nature-related or broader sustainability goals.

Going forward, we aim to keep expanding our range of Article 9 and other sustainable thematic investment strategies, covering a broader spectrum of geographies, asset classes including real estate and private credit, and nature-related themes such as oceans and water.

Scenario analysis

As nature-based sectoral pathways are developed, and the forecasting and modelling of potential scenarios associated with different severities of nature loss evolves, we aim to integrate this information into our risk management practices, including capital markets assumptions and strategic asset allocation process. Given the nascency of work in this area, we will be guided by the future development of guidance for financial institutions to commence this work, including ongoing review of the available tools and guidance to conduct scenario analysis for our investment strategies.

*The SFDR and EU Taxonomy are not internationally adopted standards and are not directly implemented or ratified in all jurisdictions. Although compliance with the SFDR and EU Taxonomy has not been legislated in Australia, Fidelity Australia may, but is under no legal obligation to, take into account some of the broad underlying principles of the EU Taxonomy and SFDR when making disclosures or reporting in relation to sustainability in other jurisdictions.

Industry, sectoral, and thematic influence

Thematic and collaborative engagement

We will continue to engage with companies in relevant sectors, geographies, and supply chains as part of our nature-related range of thematic engagement initiatives.

Informed by our impact and dependency assessment, we have identified water as a driver of material impacts and dependencies across our strategies. As such, we are evolving our stewardship approach to water and aim to formalise our approach, identifying priority sectors and issuers and clear investor expectations against which we can monitor engagement progress and management of water-related impacts and dependencies across our engaged investments.

Thematic voting

As detailed in the previous section, following continued deforestation-related engagement in 2023, we intend to begin the application of our voting principles and guidelines on deforestation effective from 2024. In addition, we conduct an annual review of our voting principles and guidelines to ensure they align with our expectations of companies, including a review of the minimum expectations we place on companies with respect to nature-related issues.

System-wide influence

In line with our active ownership approach, we also continue to enhance our policy advocacy efforts. Key areas of focus with respect to nature in the context of net zero include continued participation in the Business Coalition for a Global Plastics Treaty, as well as focusing on high impact sectors, such as food and agriculture.

We also seek to tackle the different areas of nature risk such as deforestation and pollution

and are working with the initiatives we are part of to develop specific policy recommendations that aim to help governments achieve the goals of the GBF.

Individual influence

We have a pipeline of nature-related training initiatives to ensure that we continue to upskill our research and investment teams and build a baseline understanding of nature-related risks and opportunities across the organisation.

We provide regular training to our fundamental equity and credit research analysts on how to conduct ESG ratings to ensure the highest quality of consistency. Building on foundational training we have conducted for our investment teams on nature, we will provide dedicated sector-specific training to research analysts to ensure a consistent understanding of the material nature-related dependencies and impacts for certain high-impact sectors, in addition to general training webinars for broader consumption across the organisation.

At a firm level, we will continue to work with our clients to determine how we can support them with their training needs on key ESG topics including climate and nature. We continually review our range of investment solutions to ensure that it meets evolving clients' investment and sustainability requirements. We will continue to engage with clients to identify how we can help clients address nature-related risks and opportunities across their investment strategies and where there may be opportunities for Fidelity to broaden its range of nature-related investment solutions.

We also continue to review our client reporting capabilities and will seek to evolve our reporting to incorporate additional nature-related information and engagement and voting examples, in order to align with emerging market standards and regulatory requirements, such as the TNFD, CSRD, and ISSB recommendations.

Glossary

Biodiversity: Biodiversity is the balance and variety of life on earth. It refers to the living component of natural capital, which more broadly encompasses the world's stock of natural resources, including geology (rocks and minerals), soil, air, and water.

Debt-for-nature swap: Financial transactions in which a portion of a developing nation's foreign debt is forgiven in exchange for local investments in environmental conservation measures.

Ecosystem: A dynamic complex of plant, animal, and microorganism communities and the non-living environment, interacting as a functional unit.⁴²

Ecosystem services: The contributions of ecosystems to the benefits that are used in economic and other human activity⁴³. For example, the provision of freshwater, the recreational and tourism opportunities of a forest or coral reef, the mitigation of flood and the pollination of crops.

ENCORE: Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE) is a free online tool that helps organisations start to understand their potential dependencies and impacts on nature. ENCORE sets out how the economy – sectors, subsectors, and production processes – depends and impacts on nature. Financial institutions can use data from ENCORE to identify nature-related risks they are exposed to through their lending, underwriting, and investment in high-risk industries and sub-industries.

Natural capital: The stock of renewable and non-renewable natural resources (e.g., plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people⁴⁴.

Nature: The natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment⁴⁵.

Nature-based solutions: Actions to protect, sustainably manage, and restore natural and modified ecosystems in ways that address societal challenges effectively and adaptively, to provide both human well-being and biodiversity benefits⁴⁶.

Science Based Targets Network (SBTN): Building on the momentum of the Science Based Targets initiative, the SBTN provides guidance and tools to set science-based targets for the whole Earth system: air, water, land, biodiversity, and ocean.

Sustainable Development Goals (SDGs): Adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

Sustainable Investment: An investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

⁴² Diaz, S et al (2015) The IPBES Conceptual Framework - connecting nature and people

⁴³ United Nations et al. (2021) [System of Environmental-Economic Accounting - Ecosystem Accounting \(white cover version\) | System of Environmental Economic Accounting](#)

⁴⁴ Natural Capital Coalition. 2016. "Natural Capital Protocol"

⁴⁵ Diaz, S et al (2015) The IPBES Conceptual Framework - connecting nature and people

⁴⁶ IUCN, 2016, IUCN Global Standard for Nature-based Solutions

Glossary (cont.)

Taskforce on Nature-related Financial Disclosures (TNFD): A risk management and disclosure framework for organisations to report and act on evolving nature-related risks.

Regulation and Policy:

Corporate Sustainability Due Diligence Directive (CSDDD): The European Commission's proposed legislative framework, requiring companies to conduct due diligence on their own operations and supply chains to demonstrate the actions that they are taking to protect the environment and human rights, including the development and implementation of 'prevention action plans'.

Corporate Sustainability Reporting Directive (CSRD): The EU's sustainability reporting standard requiring companies to report on how sustainability issues, such as climate change, impact their business and how their operations in turn affect people and planet.

European Sustainability Reporting Standards (ESRS): Launched under the Corporate Sustainability Reporting Directive (CSRD), the ESRS requires companies to report a range of biodiversity and pollution metrics where these are deemed material from a financial and impact perspective.

EU Taxonomy: A green classification scheme for specific economic activities to evaluate their environmental objectives to determine environmentally sustainable activities. The framework provides a means for companies and financial institutions to calculate their exposure to sustainable activities.

International Sustainability Standards Board (ISSB): Disclosure standards to facilitate a comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.

Kunming Montreal Global Biodiversity Framework: The [framework](#) sets out an ambitious pathway to reach the global vision of a world living in harmony with nature by 2050. Among the Framework's key elements are 4 goals for 2050 and 23 targets for 2030.

Sustainable Finance Disclosure Regulation (SFDR): SFDR imposes mandatory ESG disclosure obligations for asset managers and other financial markets participants, aiming to achieve increased transparency in relation to sustainability risks, the consideration of adverse sustainability impacts in the investment processes, and the provision of sustainability-related information with respect to financial products.

Appendix

Impact and dependency assessment methodology

The Exploring Natural Capital Opportunities, Risks and Exposure tool, or ENCORE, seeks to help financial institutions better understand their potential exposure to biodiversity impacts and dependencies, such that they can better integrate natural capital risks and opportunities into the investment process and their overall risk management. ENCORE draws on existing academic literature to determine the relationship between ecosystem services dependencies, impacts on nature, and economic sectors.

Dependencies on ecosystem services

Each production process is assessed to determine the potential importance of the contribution an ecosystem service makes to its functioning, and the implications were this ecosystem service to be disrupted, ranked as Very High, High, Medium, Low, Very Low or Not Applicable. Two aspects were considered to determine the materiality ranking:

1. How significant is the loss of functionality in the production process if the ecosystem service is disrupted?
2. How significant is the financial loss due to the loss of functionality in the production process?

The overall assessment reflects both of these aspects. A very high materiality rating implies that ecosystem service decline would have a severe impact on the functionality of a production process with near-term severe associated financial consequences.

Impacts on nature

Similarly, each production process is assessed to determine its relative impact on the different

drivers of biodiversity loss, ranked as Very High, High, Medium, Low. To assess the importance of a potential impact of a production process on natural capital, the following three aspects were considered in the ENCORE methodology:

1. How frequently the impact may occur?
2. How quickly the impact may start to affect natural capital?
3. How severe the impact might be?

Based on these three factors, each production process is assigned a materiality score for each impact driver.

Methodology for applying the ENCORE tool to Fidelity's corporate bond and equity Investments

The ENCORE data set links sub-industries to one or more production processes. Each production process is assessed to determine the potential materiality of each process across key drivers of nature loss and dependencies on ecosystem services, as described in the previous section.

For each sub-industry we aggregated the materiality mapping of impacts and dependencies across the relevant production processes to determine a single impact assessment per impact and dependency for each sub-industry.

For sub-industries mapped to multiple production processes, for the purpose of our analysis we adopted a conservative approach, taking the highest potential impact across all processes per driver, as illustrated in Figure 3 below of the Agricultural Products sub-industry, which is mapped to 9 production processes. We adopted the same approach to determine the relative potential dependency on each ecosystem service at the sub-industry level.

Figure 5: Illustrative example of a sub-industry linked to multiple production processes

Sector	Sub-Industry	Production process	Disturbances	Freshwater ecosystem use	GHG emissions	Marine ecosystem use	Non-GHG air pollutants	Other resource use	Soil pollutants	Solid waste	Terrestrial ecosystem use	Water pollutants	Water use
Consumer Staples	Agricultural Products	Aquaculture	NA	VH	NA	H	NA	NA	H	NA	NA	H	NA
Consumer Staples	Agricultural Products	Freshwater wild-caught fish	NA	VH	NA	NA	NA	H	NA	NA	NA	H	NA
Consumer Staples	Agricultural Products	Large-scale irrigated arable crops	NA	VH	NA	NA	NA	NA	H	NA	VH	H	VH
Consumer Staples	Agricultural Products	Large-scale livestock (beef and dairy)	NA	NA	H	NA	NA	NA	M	NA	VH	M	VH
Consumer Staples	Agricultural Products	Large-scale rainfed arable crops	NA	NA	NA	NA	NA	L	H	NA	VH	H	NA
Consumer Staples	Agricultural Products	Saltwater wild-caught fish	NA	NA	NA	VH	NA	H	NA	NA	NA	M	NA
Consumer Staples	Agricultural Products	Small-scale irrigated arable crops	NA	H	NA	NA	NA	NA	M	NA	VH	M	H
Consumer Staples	Agricultural Products	Small-scale livestock (beef and dairy)	NA	NA	H	NA	NA	NA	M	NA	VH	M	H
Consumer Staples	Agricultural Products	Small-scale rainfed arable crops	NA	NA	NA	NA	NA	L	M	NA	VH	M	NA

To assess potential impacts across the portfolio, we mapped the 11 impact drivers identified by the ENCORE tool to the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) drivers of biodiversity loss as below, noting that ENCORE does not address the final driver, invasive species.

Figure 6: Mapping ENCORE drivers of nature loss to the IPBES drivers

IPBES Drivers	Land/sea use change	Terrestrial ecosystem use
		Marine ecosystem use
		Fresh water ecosystem use
	Direct exploitation	Water use
		Other resources Use
	Climate change	GHG emissions
	Pollution	Water pollutants
		Solid waste
		Non-GHG air pollutants
	Others	Disturbances

The ENCORE tool is presented according to the Nomenclature of Economic Activities (NACE) sub-industry classification system. In order to screen our portfolios, we created a mapping to translate the ENCORE sub-industry classifications to Global Industry Classification Standard (GICS) sub-industry classifications. This was a multi-step process, with some GICS sub-industries not covered by the ENCORE tool (e.g. Industrial Conglomerates, Household Products, Photographic Products), which accounts for approximately 17% of Fidelity’s equity and fixed income corporate exposures.

The final step to our analysis was to screen for sub-industries ranked as either Very High or High impact or dependency across one or more pressures or ecosystem services to identify potentially material impact and dependency exposures.

Limitations of the ENCORE tool

The tool only considers **direct impacts and dependencies**. As such the analysis does not provide any insights on potential indirect impacts and dependencies across supply chains. This is particularly relevant for certain sectors, such as consumer staples companies who are heavily dependent on high impact sectors such as agriculture and manufacturing to produce their products. Another example of a sector where impacts are underrepresented is financial services, whose key impacts are through their financing activities rather than their direct operations.

The tool maps sub-industries to a **list of potential production processes, of which some may not be applicable** to a particular issuer operating in a given sub-industry. A more refined analysis would be to identify companies' revenue splits and match these to the ENCORE

knowledge base. However, data to do this is not systematically available and therefore to conduct such an exercise for all of our investments is not feasible given capacity constraints.

The tool is **neither issuer nor location** specific and therefore it enables analysis of **potential** risk exposure to natural capital impacts and dependencies. To understand actual impacts and dependencies, location specific information is critical. For example, to understand actual exposure to water stress risks, location specific information regarding where an organisation's assets are located is required, complemented by an assessment of how the organisation is managing relevant impacts and dependencies.

Certain **sub-industries are not currently covered by the ENCORE tool** (e.g. Industrial Conglomerates and Specialised Consumer Services). Therefore, these sub-industry exposures are excluded from the analysis at this stage. This accounts for 17% of Fidelity's total investments.

The tool only considers the technology available today, and therefore this should **not be considered a forward-looking assessment**.

Further details on the limitations of the ENCORE tool can be found on the [website](#).

Table 6: TNFD recommendations comparison table

We intend to adopt a phased approach to aligning with the recommendations of the TNFD. Below is a mapping of the TNFD recommendations to the information included in our Nature Roadmap. As we deliver on our Nature Roadmap and associated pipeline of work, we intend to align with the disclosures of the TNFD and use the framework to report on our progress.

	Description	Recommended disclosures	Additional guidance for financial institutions	Page reference
Governance	Disclose the organisation's governance around nature-related dependencies, impacts, risks, and opportunities	A. Describe the board's oversight of nature-related dependencies, impacts, risks, and opportunities	No additional guidance	Governance, p. 40
		B. Describe management's role in assessing and managing nature-related dependencies, impacts, risks, and opportunities	No additional guidance	Governance, p. 40
		C. Describe the organisation's human rights policies and engagement activities, and oversight by the board and management, with respect to Indigenous Peoples, Local Communities, and affected and other stakeholders, in the organisation's assessment of, and response to, nature-related dependencies, impacts, risks, and opportunities	Financial institutions should also describe how they have worked with investee companies, counterparties, or clients with whom they have financial relationships through advisory, investing, lending, or insurance to help ensure they undertake outreach and engage relevant Indigenous Peoples, Local Communities, and affected stakeholders in their assessment of, and response to, nature related dependencies, impacts, risks, and opportunities	Deforestation Framework, pp. 28-32
Strategy	Disclose the actual and potential impacts of nature-related dependencies, impacts, risks' and opportunities on the organisation's businesses, strategy and financial planning where such information is material	A. Describe the nature-related dependencies, impacts, risks, and opportunities the organisation has identified over the short, medium, and long term in its operations and upstream and downstream value chains	No additional guidance	Nature and deforestation exposure assessment, pp. 11-12 <i>Going forward we plan to increase the granularity of this analysis across our investment strategies</i>
		B. Describe the effect nature-related dependencies, impacts, risks, and opportunities have had on the organisation's business model, value chain, strategy, and financial planning, as well as any transition plans or analysis in place	A financial institution should also describe sector, realm, or biome-specific standards and policies (covering, for example, forestry, fisheries, palm oil, or mining), particularly if these standards and policies impose limits or other due diligence standards on investment, lending, or insurance activities	
			A financial institution should also provide information on how nature-related risks and opportunities are considered in investment selection, investment advice, and product and service offerings. An asset manager or asset owner should describe how nature-related dependencies, impacts, risks, and opportunities are factored into product development and investment or ownership strategy	Proprietary ESG ratings, p. 22 SDG model, p. 22 FIL Sustainable Product Architecture, p.24 Sustainable Thematic Investment Strategies, pp. 24-25 Quarterly Sustainability Review, p. 26

	Description	Recommended disclosures	Additional guidance for financial institutions	Page reference
Strategy	Disclose the actual and potential impacts of nature-related dependencies, impacts, risks, and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	C. Describe the resilience of the organisation's strategy to nature-related risks and opportunities, taking into consideration different scenarios	A financial institution that performs scenario analysis to assess nature-related risks and opportunities should describe how the outputs from the scenario analysis are used in risk management processes, given the financial institution's activities and the relevant timeframes (e.g. the maturity of loans for banks differs from the holding periods of asset owners, which differs from the liability duration for insurers and re-insurers, and these may affect how such information is considered). It is recognised that there may be limitations to the granularity of information that can be disclosed for confidentiality or competitive reasons. At a minimum, information provided should give an indication of the kinds of analysis done, the main conclusions and learnings, the limitations of the analysis, and any decisions or changes made in light of the conclusions from the scenario analysis	Scenario Analysis is considered in our future pipeline of work, p. 42
		D. Disclose the locations of assets and/or activities in the organisation's direct operations and, where possible, upstream and downstream value chain(s) that meet the criteria for priority locations	A financial institution should disclose the locations in their direct operations that meet the definition of priority locations in the guidance for all sectors	
Risk & Impact Management	Disclose how the organisation identifies, assesses and manages nature-related dependencies, impacts, risks, and opportunities	A. (i) Describe the organisation's processes for identifying, assessing, and prioritising nature-related dependencies, impacts, risks, and opportunities in its direct operations	No additional guidance	
		A. (ii) Describe the organisation's processes for identifying, assessing, and prioritising nature-related dependencies, impacts, risks, and opportunities in its upstream and downstream value chain(s)	For a financial institution, the primary focus should be on downstream value chains, which are effectively the financial institutions' financial, investment, and insurance portfolios	Proprietary ESG ratings, p. 22 SDG model, p. 22 FIL Sustainable Product Architecture, p. 24 Sustainable Thematic Investment Strategies, pp. 24-45 Quarterly Sustainability Review, p. 26
		B. Describe the organisation's processes for monitoring nature-related dependencies, impacts, risks, and opportunities	No additional guidance	Proprietary ESG ratings, p. 22 SDG model, p. 22 Quarterly Sustainability Review, p. 26

	Description	Recommended disclosures	Additional guidance for financial institutions	Page reference
Risk & Impact Management	Disclose how the organisation identifies, assesses, and manages nature-related dependencies, impacts, risks, and opportunities	C. Describe how processes for identifying, assessing, prioritising, and monitoring nature-related risks are integrated into and inform the organisation's overall risk management processes	A financial institution should describe, as relevant, how the organisation's risk functions (in the case of all institutions) and investment teams (in the case of asset managers and owners) monitor nature-related dependencies, impacts, risks, and opportunities in its direct operations and financial portfolios. A financial institution should also describe the integration of nature-related risk considerations into other risk management categories, such as credit risk, market risk, operational risk, underwriting risk, and investment risk	
Metrics & Targets	Disclose the metrics and targets used to assess and manage relevant nature-related dependencies, impacts, risks, and opportunities where such information is material	A. Disclose the metrics used by the organisation to assess and manage material nature-related risks and opportunities in line with its strategy and risk management process	All core global risk and opportunity metrics and any other relevant metrics should be reported on a comply or explain basis at the appropriate level (e.g. geography, asset class, portfolio, portion of portfolio, or whole entity-level) to most accurately reflect the magnitude of risks and opportunities described in Strategy A. The description of the metrics' scopes and the methodologies applied should include whether these are identified and categorised based on regulatory or voluntary taxonomies, market-based standards, or internal definitions	Nature and deforestation exposure assessment, pp. 11-12 Going forward we plan to increase the granularity of this analysis across our investment strategies
		B. Disclose the metrics used by the organisation to assess and manage dependencies and impacts on nature	All core global risk and opportunity metrics and any other relevant metrics should be reported on a comply or explain basis. The underlying assumptions and methodologies behind any estimates should be clearly stated and based on the best available information about the locations and activities of companies. Such disclosures are expected to be at an aggregate level and not at the level of individual portfolio holdings	Nature and deforestation exposure assessment, pp. 11-12 Going forward we plan to increase the granularity of this analysis across our investment strategies
		C. Describe the targets and goals used by the organisation to manage nature-related dependencies, impacts, risks, and opportunities and its performance against these	No additional guidance	

Important Information

All information is current as at 31 October 2023 unless otherwise stated. Not for use by or distribution to retail investors. Only available to a person who is a "wholesale client" under section 761G of the Corporations Act 2001 (Commonwealth of Australia) ("Corporations Act").

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