

# Responsible Investing 2016 Governance and Engagement Report



This is for investment professionals only and should not be relied upon by private investors.

APRIL 2017

The 2016 Governance and Engagement Report details the activities of our specialist Environmental, Social and Governance (ESG) team, within our global investment team, over the year – focusing on ESG integration, proxy voting and engagement globally.

Socially responsible investing provides a mechanism for investors to align personal values with investment objectives. Environmental, Social, and Governance (ESG) factors can be a key way to assess the sustainability and social impact of an investment in a company or business.

At Fidelity, responsible investment is an integral part of our investment process.

## Our commitment to responsible investing

Fidelity International has been a signatory to the UN Principles for Responsible Investment (UNPRI) since 2012.

In 2016, we maintained our A score in Strategy & Governance and both equity modules, and scored A+ for our fixed income modules as detailed in the table below.

## UNPRI\* Fidelity Score

Module	2016 Fidelity Score*	2016 Median	2015 Fidelity Score	2015 Median
Strategy & Governance	A	B	A	B
Listed Equity – Incorporation	A	A	A	A
Listed Equity – Active Ownership	A	B	A	B
Fixed Income – Corporate Non-Financial	A+	C	A	C
Fixed Income – SSA	A+	C	B	E
Fixed Income – Corporate Financial	A+	C	n/a	n/a
Fixed Income – Securitised	A+	E	n/a	n/a

\*Source: UNPRI (UN Principles for Responsible Investment).

At Fidelity, we believe that by investing in companies which operate with high standards of corporate responsibility we can enhance and protect investment returns for our clients. Consideration of Environmental, Social and Governance (ESG) issues is an integral part of our investment decision-making process.

Through our rigorous bottom-up research approach, we gain a deep understanding of ESG issues at a company level before they escalate and potentially threaten the value of our clients' investments.

Over the year, the ESG team has engaged with companies on issues including:

- bribery and corruption cases
- lack of board integrity and competence
- misaligned remuneration
- shareholder rights
- data breaches/cyber security
- corporate failings
- climate change/risk.

In 2016, we actively voted to protect the rights of the shareholders in more than 3,700 shareholder meetings and participated in class actions.

# 1

## VOTING

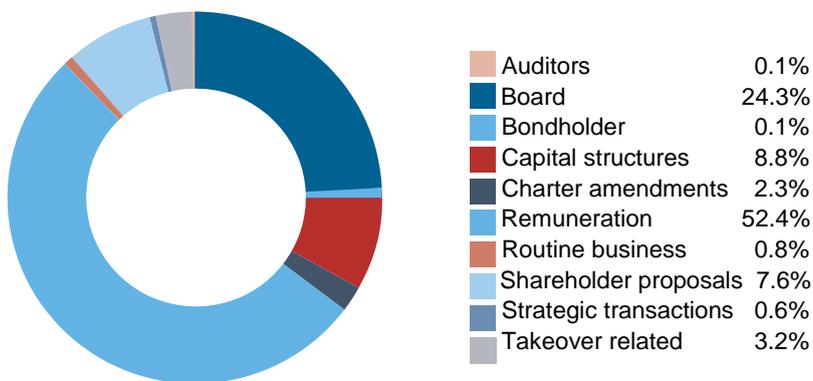
As stewards of our clients' money, we have an important role to play in improving the governance of the companies in which we invest – helping companies become better companies. We engage directly with companies to encourage good governance and sustainable corporate practices.

In 2016, Fidelity's ESG team engaged with more than 650 companies on issues such as governance and remuneration, board composition, capital structure and environment and social issues.

We also voted at more than 3,700 shareholder meetings, voting against management in nearly a third of cases to protect the rights of investors.

The most common reasons behind our votes against management were executive remuneration arrangements which were not in line with our voting guidelines and election of board members in Japan where the candidates were insufficiently independent from management.

### 2016 votes against management by category



### 2016 vote summary

Region	Votes with management	Votes against management	Abstain	Blocked	Took no action	Total
Americas	343	198	11	1	3	556
Asia	1258	60	19	0	11	1348
Europe	318	292	9	9	70	698
Japan	162	247	0	0	0	409
MEA	38	11	5	0	0	54
Australia	151	51	10	0	0	212
UK	257	165	15	0	4	431
<b>TOTAL</b>	<b>2527</b>	<b>1024</b>	<b>59</b>	<b>10</b>	<b>88</b>	<b>3708</b>

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# ENGAGEMENT WITH REGULATORS AND OTHER STAKEHOLDERS

Members of Fidelity's ESG team are involved in a number of external and collaborative governance-related bodies worldwide.

The overarching goal of socially responsible investing is to achieve competitive financial returns while also having a positive impact on society, or to avoid investing in companies that conflict with personal values. Our general approach is to participate in governance-related consultations through the offices of these intermediaries or respond directly to consultations where our views are not reflected or where we hold a strong view.

Some examples of these in 2016 included:



Becoming signatories to the Stewardship Codes in Hong Kong and Taiwan



Responded to a consultation on ESG disclosure in Singapore



Assessed the impact of the French Energy Transition Law and acquired the ability to carbon footprint our funds in some regions



Participated in the GC100 & Inventor Groups updated guidance on remuneration guidance in the UK



Responded to a consultation on the German Corporate Governance Code



Participated and consulted in the evolution of Japan governance



Responded to a consultation from the Task Force on Climate-related Financial Disclosures



Responded to a consultation on the UK's Implementation of the EU Non-Financial Reporting Directive



Responded to an inquiry from the Business, Innovation and Skills committee in the UK on boardrooms and executive remuneration

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# INITIATIVES

We are committed to raising the standards of ESG within our global investment community. We participate in the debate over the development of appropriate standards for responsible investing and constantly improve our own approach.

Our activity in 2016 included:

### Fidelity initiatives

- **Continued to enhance our ESG rating methodology** to include controversy data such as environmental disasters, product safety recalls and bribery scandals.
- Our analysts continued their extensive **research on climate change and electric vehicles** and their impact on industry and the environment.
- Launched new feature on our research management database to more **systematically track ESG engagement** and analysis undertaken by our analyst team.
- **Developed a diagnostic tool** to identify the key drivers behind the MorningStar sustainability ratings and used this for portfolio analysis on ESG matters.
- **Updated our stewardship statement** for the UK's Financial Reporting Council Stewardship Code which resulted in us being awarded a Tier 1 status.
- Entered our UK-focused real estate portfolio into the **Global Real Estate Sustainability Benchmark** ('GRESB') Survey.

### Active engagement

- Participated in a process to **elect independent candidates** to Italian boards.
- Continued to encourage companies in the UK and Europe to **extend the share retention period** for long-term incentive awards to executives by extending the timeframe to 5 years.
- Continued to encourage US listed companies to have **greater performance-related pay** in the US market.
- Continued to campaign for Australian companies to hold **shareholder meetings by poll** rather than a show of hands.



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