What is ESG Investing?

ESG investing aligns capital with values in a manner that may generate sustainable performance.
Macro Factors Driving the Growth of ESG Investing
Not a short term trend, current macro factors show that ESG Investing is positioned to trend upwards for the long term

<table>
<thead>
<tr>
<th>Mass Market Investors</th>
<th>Regulatory Developments</th>
<th>Global Awareness</th>
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<tbody>
<tr>
<td>Trends starting among Millennials and reaching mass market (e.g., organic foods)</td>
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<td><strong>Sustainability-marketed products grew 5.6x faster</strong> than conventionally-marketed products over the past 5 years¹</td>
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<td>Governments and regulatory agencies are <strong>mandating corporate oversight</strong> on key ESG issues</td>
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<td>Investors consider issues like:</td>
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<td>• How the upswing in extreme weather and regulation driven by <strong>climate change</strong> increase a company’s risk</td>
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<tr>
<td>• A growing focus on how <strong>gender diversity in companies</strong> may impact the bottom line</td>
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<table>
<thead>
<tr>
<th>High Net Worth Investors</th>
<th>Women</th>
<th>Millennials</th>
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<tbody>
<tr>
<td>The <strong>desire to make an impact with wealth</strong> is a key investment factor for High Net Worth investors and more are <strong>advancing philanthropic goals</strong> through impact investing</td>
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<tr>
<td>Women are anticipated to <strong>inherit 70% of transferrable wealth</strong> over next two generations</td>
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<td><strong>80% of women</strong> want to invest alongside their personal values</td>
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<td><strong>$59T will transfer to the next generations</strong> over the next 3 decades and 93% of millennials believe <strong>social impact is key</strong> to their investing decisions</td>
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¹ NYU Stern CSB Sustainable Share Index 2019.
Sources: Forbes; Economist; US SIF; B Corporation; U.S. Gov. Federal Register; Deloitte; Cerulli; MSCI; Morgan Stanley; Fidelity Consulting analysis, Fidelity PI survey 6/2018; Boston College Center on Wealth and Philanthropy
Many Investing Approaches Under One Umbrella
ESG is more than just excluding options based on values

<table>
<thead>
<tr>
<th>Negative/Exclusionary Screening</th>
<th>ESG Integration</th>
<th>Thematic Investing</th>
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<tr>
<td>Avoiding investments in companies or industries deemed unacceptable or controversial, based on moral values and standards</td>
<td>Integrating ESG factors into investment due diligence and analysis to identify a company's risks and opportunities</td>
<td>Investing in companies or organizations to generate social and environmental impact along with financial gain</td>
</tr>
</tbody>
</table>

**Examples**
- Ex-Tobacco
- Ex-Fossil Fuel
- Ex-Abortion Pharma

**Motivation**
- Align investments with values or mission
- Minimize negative impact and/or risks
- Highlight materiality of some ESG issues
- Improve standards of corporate behavior via proxy voting and engagement
- Enhance returns and mitigate risks
- Support the mission of a specific company
- Generate social and/or environmental impact

**Primary Techniques**
- Exclusionary screening
- Positive screening
- Best-in-class selection
- In-depth analysis of each industry
- Proxy voting and/or engagement
- Robust screening
- In depth analysis to understand companies’ revenue streams

Examples
- Water
- Alt Energy
- Gender Diversity
- Poverty
A Snapshot of ESG at Fidelity
Fidelity's commitment to the space

- Established the **Fidelity ESG Team** in 2017
- Adopted a formal **ESG Policy** and revised **Proxy Guidelines** in 2017
- Became **signatory of the UN PRI** in 2017
- Engaging with **third parties** that are participating in the larger ESG discussion
- Continued building of **ESG Financial Literacy** for Fidelity research and management teams
- **ESG Speaker Series**: Topics include Data Privacy, SASB Framework, Climate Change
- **Three sustainable index funds**, covering US equity, international equity and fixed income asset classes
- **Fidelity® Focused Stock Fund** on **Barron's 2018 top sustainable funds**
- Active gender-diversity fund, **Fidelity® Women’s Leadership Fund** launched May 2019

* Barron’s looked for large-cap U.S. stock funds with assets of $300 million or more and at least one year’s worth of performance. That turned up 188 funds with more than $1 trillion in combined total assets. These funds were ranked by one-year returns for the 12 months ended on Dec. 31. The ranking was based on data provided by independent research firms Morningstar and Sustainalytics. Barron’s used Morningstar data to screen for large-company U.S. stock funds with sustainability ratings of “high” (placing them in the 10th percentile of their category) or “above average” (top third). Funds either were run with a sustainable mandate—ESG-focused, socially responsible, or religious. The others come by their sustainable portfolios via their stock-picking process.
## Building ESG Literacy for Research and PMs

<table>
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<tr>
<th>Platform Integration</th>
<th>Portfolio Analytics</th>
<th>Thought Leadership</th>
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| • Enabled direct link to third party ESG Research in PM and Research toolkits | • Increased awareness of ESG risks and opportunities within portfolio holdings  
  • Presented to PMs monthly and quarterly  
  • Assists with company engagement prioritization | • Identify and communicate thematic, sector, and/or security ESG trends, factors, and material risks/opportunities to incorporate into research, valuation models, and portfolio construction  
  • Utilize 3rd party data insights and sector-specific material ESG factors to derive a proprietary ESG rating  
  • Establish point of view for investment policy and stewardship report inclusion, increasing our external presence |

Intended to show modeling resource that may be used by portfolio manager.
Recycling continues to be a major headwind for Waste Management and the waste industry in general due to the significant declines in recycled commodity values.

- Genevieve Shaw

Packaging: Adaptation to a sustainability-focused world will increasingly drive dispersion across the group Containerboard.”

- Anand Yegya-Raman
High-Scoring ESG Stocks Reveals Outperformance Relative to Low Scorers

5 year back test of ESG Stocks in Russell 1000

Past performance is no guarantee of future results. Source: MSCI ESG ratings Benchmark is the Russell 1000. Companies are sorted by their ESG scores and quintiled within the universe (i.e. split into equal groups of 20%) on a monthly basis and equally-weighted. We then look at the performance of those equal-weighted groups vs. the equal-weighted benchmark over the following 1 month. The chart is showing the annualized performance of the forward 1M returns vs. the annualized performance of the equal-weighted benchmark (Russell 1000). Note that the leftmost bars in each group are the highest scoring companies (top 20%), and the rightmost bars are the lowest scoring (bottom 20%), e.g. the highest ESG companies outperform by ~1.50% and the worst underperform by ~2%. 

ANNUALIZED EXCESS RETURNS TO ESG SCORES BY QUINTILE TO THE RUSSELL 1000
December 2013–December 2018

Past performance is no guarantee of future results.
Fidelity® Women’s Leadership Fund

Retail: FWOMX
Growth In Women’s Wealth Leading to New Trends

Women are gaining more control over investable assets and want to invest in gender equality.

WOMEN CONTROL ~$14T OF U.S. ASSETS...

- $27T Total Household Assets
- $14T (51%) Women- Controlled Wealth

... WHICH IS EXPECTED TO GROW CONSIDERABLY...

Women-Controlled Wealth

2012: $14T
2025: $29T

6% growth

... AND WOMEN WANT TO INVEST MORE IN GENDER EQUALITY

- % of women who would like to invest in...
- % of women who currently invest in...

- Poverty: 37% vs. 39%
- Education: 35% vs. 27%
- Environment: 35% vs. 21%
- Gender Equality & Leader Diversity: 18% vs. 4%
- Children and Youth: 29% vs. 24%
- Health: 28% vs. 9%

1 Applies 2012–2020 growth rate out to 2025.
Source: "The Power of the Purse; BMO Wealth Institute; Center for Talent Organization; CKSI internal analysis."
Greater Gender Diversity in Senior Roles, Not Just a “Nice to Have”

As female participation increased in senior management, so did performance, providing quantitative evidence of the enhanced decision-making and governance that diversity enables within an organization.

Each line represent different tiers of female participation in senior management (15%/25%/33%/50%/All Companies)
Share price performance for baskets with different tiers of female participation in senior management
Source: Bloomberg, Credit Suisse Research, 2016.
Outperformance: Gender Diversity In Leadership And Policies

Companies with diverse leadership and diversity policies have outperformed the benchmark by an average of 99 bps per year since 2008.

Source: Thompson Reuters and Fidelity Investments (FMR), as at April 2019. Data as at June 2008–June 2018. Past performance is no guarantee of future results. Not intended to represent the performance of any Fidelity Fund or Funds. Investment universe made up of top 1,000 companies by market capitalization for each time period. Filters include: 1) companies that have two or more gender diversity corporate governance policies in place, according to Thompson Reuters data as of each historical period, and 2) companies that are in the top ½ of female representation in senior management roles within each company’s sector, according to Thompson Reuters data as of each historical period. Excess returns are defined as equal-weighted returns relative to the sector-adjusted benchmark. Note that the benchmark was modified to avoid sector bias, such that each benchmark sector weighting was adjusted to equate to the sector weightings of companies that meet both of the diversity criteria above. Because diversity metrics are typically reported in Corporate Social Responsibility (CSR) reports within six months after the end of a fiscal year, we post-date fiscal year data to the following June (e.g., June 2007 incorporates fiscal year 2006 data for all companies) to avoid look-ahead bias.
The Women’s Leadership Universe

**Leadership Criteria**

- The leadership criteria focuses on female CEOs or companies that have other influential women on the management team.

**Governance Threshold**

- Using a women’s board participation threshold of 33% or more which far exceeds the average makeup of companies in the S&P 500 and Russell 3000.

**Policies**

- Involves an assessment of a company’s gender diversity initiatives and policies, a proprietary process that involves evaluating criteria to help us determine where a company lies in its women’s leadership journey.

* MSCI ESG Research LLC. 2019.
Investment Process
Driven by research and bottom-up fundamental company analysis

Russell 3000 Universe

Idea Generation Screening Process

Leadership
• Women in key roles in the “C” suite

Governance
• Companies with at least one-third women on the board

Policies
• Companies with best in class Gender Diversity initiatives and policies

Fundamental Research

Quality
• High visibility into revenue growth
• Stable margins and strong Free Cash Flow generation
• Good stewards of capital

Growth
• Open-ended growth stories at a reasonable valuation

Portfolio Construction
• The top 10 stocks constituting about 20% of the fund’s assets
• Sector unconstrained but sector aware

Portfolio
80–100 holdings

Risk Management/Technical Research

For illustrative purposes only.
Investment Philosophy
Casting a wide net in search for companies that fit the fund’s key mandates

- **A dedication** to prioritizing and advancing women’s leadership and development across organizations

- **Focus on innovative companies** that may offer above average earnings growth due to an defensible position in a large addressable market

- **High margin businesses or businesses with low capital intensity** that have the potential to generate significant free cash flow

- **Stable and defensive businesses** that have the ability to be resilient in prior downturns

- Management teams that have a **value creation and shareholder friendly** approach to capital allocation
## Buy and Sell Discipline

### 1 Buy Discipline

**Women’s Thesis:**
- Once companies are identified as prioritizing and advancing women’s leadership and development, companies demonstrating the following attributes are candidates for purchase:
  - Superior earnings growth
  - Durable consistent cash flow
  - Shareholder-friendly capital allocation

### 2 Sell Discipline

**Change to Women’s Thesis:**
- Departure of key female executive(s) without a robust replacement pipeline, policies, or deficiencies in gender diversity practices.

**Thesis Creep:**
- When the initial reasons for buying the stock are no longer valid.
  - Examples could include a buy thesis that was based on cheap valuation and share buybacks but was derailed by an expensive acquisition, a company that faces deteriorating competitive landscape or a corporation facing changes in the regulatory landscape.
  - Thesis creep typically ends up with downward earnings revisions and/or the market applying a lower multiple to the company’s earnings.

**Valuation:**
- Every position has an associated upside/downside target.
  - A change in the risk/reward profile of the stock could warrant a sale.

Source: Fidelity Investments.
Having Impact Through the Fidelity® Women’s Leadership Fund

By the numbers

Companies in the Women’s Leadership fund have*:

- **38** female CEOs and **38** CFOs
- **7** CEO/CFO female duos across 6 different sectors
- **60** boards with greater than 30% female representation
- **20** Return to Work programs
- **30** CEO Action for Diversity and Inclusion Pledge signatories
- **25** leadership development programs for diverse talent

The portfolio manager seeks opportunities in companies that may…

- …Have Gender Blind Parental Leave
- …Be committed to equal pay for equal work
- …Use their limited female talent pipeline as motivation to change their industry
- …Extend inclusion to well beyond just gender

* Statistics subject to change 5/8/19.
Source: Bloomberg, company websites, ceoaction.com, and Corporate Sustainability reports as of 5/7/19.
Calculated using an illustrative list of companies based upon the investment criteria.

For illustrative purposes only.
Stock Examples

The following examples demonstrate how the fund's PM may analyze a company pursuant to the fund's investment strategy and is provided for educational purposes only. References to specific companies should not be construed as research reports, recommendations or investment advice. The stocks mentioned herein are not necessarily holdings invested in by FMR or its affiliates. For holdings information including top 10 holdings and complete quarterly holdings, please visit fidelity.com or institutional.fidelity.com. The statements and opinions are subject to change at any time, based on market and other conditions.
Stock Example: Etsy
Investing in a community of thousands of female entrepreneurs

Women’s Thesis
• 2MM women sellers on the ETSY platform
• 50% of the board is female
• 70% of executives are women including CFO Rachel Glaser

Investment Opportunity
ETSY competes in the $155B handmade market with limited competitors. Increasing purchasing frequency from 1x/year could have a dramatic increase in earnings.

Potential Upside
10% annualized return over next ten years based on 20x long-term earnings power of $8.00

<table>
<thead>
<tr>
<th>Frequency/Basket Size</th>
<th>Frequency</th>
<th>Share</th>
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<tbody>
<tr>
<td>Habitual Buyers</td>
<td>&gt;6</td>
<td>5%</td>
</tr>
<tr>
<td>Multiple Days</td>
<td>2-5</td>
<td>35%</td>
</tr>
<tr>
<td>One Day</td>
<td>1</td>
<td>60%</td>
</tr>
<tr>
<td>Average</td>
<td>1.6-2.6x</td>
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</tbody>
</table>

Opportunity to shift more one time purchasers into habitual buyers.

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Stock Example: American WaterWorks
Evaluating the aging water infrastructure in the U.S.

Women’s Thesis
• Strong C-Suite Leadership with CEO Susan Story and CFO Linda Sullivan
• 50% female representation at board level
• A commitment to increasing diversity in the workforce through diverse candidate slates, training programs and external partnerships

Investment Opportunity
• High visibility into 7-10% EPS growth as investment to replace end of life water infrastructure is estimated to be close to $1T
• Highly fragmented industry of >50k providers of water service creates M&A opportunities
• High quality management team focused on dividend growth

Potential Upside
• Low teens annualized return based on 23x 2023 EPS plus dividends

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Source: Fidelity Investment and FactSet as of 12/31/18.
Stock Example: Accenture
The journey to gender parity

Women’s Thesis
• Thought leader on gender diversity with buy-in from CEO down
• Goal of gender balanced workforce by 2025 and 25% women managing directors by 2020

Investment Opportunity
Market leading revenue growth from helping companies with digital transformation/cloud/security initiatives
Disciplined capital allocation policy can lead to consistent share buybacks and dividends

Potential Upside
Solid compounder that has the potential to deliver low double-digit EPS growth translating into low teens annual return over next five years

SUSTAINED STRONG FINANCIAL PERFORMANCE

Broad Based Revenue Growth
5% CAGR in U.S. dollars
9% CAGR in local currency

2014 2017
$30.0 $34.9

Strong Earnings Growth
9% CAGR (on an adjusted basis)

2014 2017
$4.5 $5.9

Sustained Margin Expansion
50 basis point expansion
(on an adjusted basis)

2014 2017
14.3% 14.8%

Significant Cash Returned to Shareholders
2014-2017
9% CAGR dividends per share

2014 2017
$5.6 $10.3

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Source: Fidelity Investment and FactSet as of 12/31/18.
## Glossary

<table>
<thead>
<tr>
<th>Index/Terms</th>
<th>Definition</th>
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<tbody>
<tr>
<td>“C” Suite</td>
<td>Describing a cluster of a corporation’s most important senior executives. C-suite gets its name from the title of top senior staffers, which tend to start with the letter C, for “chief.”</td>
</tr>
<tr>
<td>Compound Annual Growth Rate (CAGR)</td>
<td>The rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment’s lifespan.</td>
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<tr>
<td>Earnings Per Share (EPS)</td>
<td>The portion of a company’s profit that is allocated to each outstanding share of common stock, serving as an indicator of the company’s financial health. In other words, earnings per share is the portion of the company’s net income that would be earned per share if all the profits were paid out to its shareholders.</td>
</tr>
<tr>
<td>Generally Accepted Accounting Principles (GAAP)</td>
<td>Refer to a common set of accepted accounting principles, standards and procedures that companies and their accountants must follow when they compile their financial statements.</td>
</tr>
<tr>
<td>Russell 1000 Index</td>
<td>A market-capitalization-weighted index of approximately 1,000 of the largest companies in the U.S. equity market.</td>
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<tr>
<td>Russell 3000 Index</td>
<td>A market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks.</td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
<td>A market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The S&amp;P is a float-weighted index, meaning company market capitalizations are adjusted by the number of shares available for public trading.</td>
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Important Information

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It is not possible to invest directly in an index. All market indices are unmanaged.

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. The fund may have additional volatility because it can invest a significant portion of assets in securities of a small number of individual issuers. Past performance is no guarantee of future results.

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