REPORT ON
Investment Sustainability and Impact
Fidelity Asset Management ESG Investing Team
Fidelity’s ESG Investing Team is proud to present our Report on Investment Sustainability and Impact. As stewards of our customers’ money, we believe that integrating a robust environmental, social, and governance (ESG) investing component into our research and portfolio management processes enhances our ability to identify superior investment opportunities. We focus intensely on the investment merits of all potential portfolio holdings, and consider all relevant aspects of the fundamental research process, including ESG factors. At the same time, we are sensitive to some of our customers’ desires that their investments reflect their personal beliefs. Therefore, for these customers, we offer thematic funds, investment solutions, and planning tools that incorporate sustainable investing considerations.

Our expectations for the companies we invest in are evolving as we encourage a greater focus on, and disclosure of, issues related to ESG risks and opportunities. We have similar expectations for our own evolution toward improved corporate social responsibility. We know we have more to do, though we have made strides in our dedication to sustainability, our associate experience, and our focus on diversity and inclusion.

“Corporations are responding to social and political issues in a way they haven’t before, showing increasing accountability to society more broadly to protect against reputational fallout, and to attract the next generation of socially minded talent. As we examine companies’ efforts to attract diverse workforces, detailed disclosures allow us to track progress over time, see which companies stand out, and identify practices that work.”

COURTNEY BEDELL, ESG ANALYST—CYCLICALS AND ENERGY
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Fidelity’s ESG Investing Team presents our first Report on Investment Sustainability and Impact at a challenging time. Nations around the world are wrestling with issues of social justice and equality alongside the growing tragedy of lives lost and economic hardship due to COVID-19. The global pandemic has upended the way we work and interact with others. It has also put a spotlight on the need to evolve how financial services firms address heightened customer expectations for corporate stewardship in the areas of investment research and investment product design.

The economic disruption, social unrest, and global health crisis over the past year have moved many of us to reflect on our priorities and the values most important to us. Many corporations have accelerated their sustainability efforts and sharpened their focus on critical matters such as employee and management diversity, corporate governance, sustainable product design, and supply chain management. Perhaps now more than ever, investors want to ensure their investments are aligned with their core values and that the companies they own put employees and communities at the forefront of corporate stewardship.
While this may be our first published report outlining our sustainable investing efforts, ESG considerations have been part of our investment stewardship and research process for many years. Since its founding, Fidelity has sought to build the broadest mosaic possible to identify investment opportunities and risks—across all asset classes, investment styles, and geographies.

We believe the operating behaviors, principles, and outcomes associated with ESG initiatives are integral to a company’s long-term economic success, and thus should be incorporated into the investment research process. Therefore, ESG research at Fidelity is guided by the same intellectual rigor and proprietary analysis that shape all of our active management capabilities.

I am honored to lead Fidelity’s sustainable investing efforts and proud to represent our ESG Investing Team’s commitment to deep, fundamental analysis of ESG issues and development of a wide range of sustainable products to meet our customers’ needs.
What Is Sustainable Investing?
What is sustainable investing?

We define sustainable investing as a discipline that integrates ESG factors into investment research and decision-making. Evaluating the ESG factors that are material to a given industry and company can help assess an investment’s sustainability. Generally, sustainable investing can mean selecting companies that limit the negative impact their operations and products have on the environment; focus on more equitable relationships among and between their customers, employees, suppliers, and communities they operate in; and exhibit accountable and transparent governance with diverse and independent boards, compensation incentives that align with shareholders, and sound capital allocation policies.

At Fidelity, we believe that robust ESG practices can be critical to an investment’s long-term success. Therefore, where appropriate and aligned with a fund’s investment objectives, we apply an ESG perspective directly to the products we offer our clients. More broadly, we have incorporated ESG factors into our bottom-up fundamental research—across all asset classes and investment disciplines.

Our deep, fundamental investment research process includes ESG analysis to help us better identify risks and superior investment opportunities. For example, examining environmental factors can reveal which companies are responsive to consumer demand for sustainable practices. A focus on social themes can identify businesses that demonstrate a commitment to a diverse and inclusive workplace. And attention to governance can uncover which companies are committed to diverse board composition and shareholder-friendly policies.

Environmental: Sustainability & resource efficiency
- Climate change
- Greenhouse gas emissions
- Natural resource depletion
- Waste & pollution
- Energy efficiency
- Alternative energy

Social: More equitable societies and respect for human rights
- Labor standards, health, and safety
- Diversity, employee engagement
- Supply chain management
- Local community impact
- Data protection/Privacy

Governance: Accountable governance and transparent operations
- Executive incentive structure
- Board diversity and independence
- Transparency and disclosure
- Lobbying/Political contributions
- Bribery and corruption
- Business ethics

Compiled from the United Nations Principles for Responsible Investment (UNPRI), CFA Institute, and the Sustainability Accounting Standards Board (SASB).
Integrating ESG into Fidelity’s Investment Process
Integrating ESG into Fidelity’s Investment Process

In our role as a global asset management firm, we remain focused on the same proprietary research and investing principles that have always guided us. We consider all relevant components of the investment research process and carefully evaluate the investment merits of all potential portfolio holdings. With more than $3.5 trillion in assets under management, Fidelity’s depth and breadth of research coverage mean we can thoroughly assess a company’s economic and investment potential.

Since its founding, Fidelity’s investment research organization has been based on a culture of individual accountability and a meritocracy of investment ideas. Consistent with this approach, portfolio managers are not mandated to incorporate ESG into their research process; however, we believe that ESG factors represent a set of corporate attributes that can be financially material and thus should not be ignored. When properly contextualized, ESG considerations can help portfolio managers and analysts evaluate and expand their investment theses. Through the lens of a skilled active manager, the analysis of ESG factors can provide an expanded view into the durability of a company’s competitive advantage and earnings growth, as well as potential business model risks. A historical and forward-looking ESG assessment can help confirm if company management is effectively addressing the relevant intermediate- and long-term systematic risks that may not be uncovered when only relying on an investment’s quantitative earnings model.

While fundamental, bottom-up company research is still the key to constructing earnings models and determining enterprise value, we believe that ESG factors can be an important part of the overall investment risk assessment for many companies. ESG factors are important inputs into the overall research process to help identify companies that are best-positioned to attract top talent, develop the most innovative products, and drive long-term value creation for their employees, communities, and shareholders. Simply put, we believe that a focus on sustainability risks is an essential component of a world-class fundamental research process.

FIDELITY’S ESG CAPABILITIES THROUGHOUT THE INVESTMENT PROCESS

- **ESG Integration**: ESG integration into our investment process through propriety ESG ratings and research publication
- **Impact**: Developing the tools to measure and monitor the contribution of ESG factors
- **Engagement**: Actively engaging with companies on ESG-related issues, through management meetings and proxy voting
- **Customer Choice**: Offering a variety of products and solutions that consider ESG
Today, about 15% of global energy comes from green sources, but to limit global warming below the 1.5°C threshold, we would need to be close to 30% by 2030 and 60% by 2050. Across most geographies, wind and solar power are cheaper than fossil fuels, so there appears to be tremendous alignment between economic and environmental incentives over the next decade.”

PRANAY KIRPALANI, EQUITY ANALYST—INDUSTRIALS
Fidelity’s ESG Investing Team

All of our analysts and portfolio managers are focused on detecting and analyzing the factors that could affect portfolio holdings, including relevant ESG risks and opportunities. We have a dedicated ESG team committed to equipping our investment teams with education, training, resources, and insights to aid in their evaluation of companies’ ESG efforts. Integrating ESG considerations within our established fundamental research processes supports Fidelity’s belief that positive engagement with companies creates value for shareholders and other stakeholders.

We seek to evaluate a company’s current sustainability profile as well as identify the intangibles that can provide a more complete picture of a company’s future earnings potential. In doing so, we can broaden our investment universe and thus our opportunity set.

Equities

We believe that ESG factors can affect competitiveness, performance, and earnings in both the short and long term. Fidelity’s ESG analysts are assigned specific equity sectors and are responsible for publishing ESG research and insights relevant to industries and companies that encompass their coverage universe.

We are expanding and formalizing ESG research as part of the mosaic our portfolio managers and analysts consider when evaluating investment opportunities. Through engagement with management, our ESG Investing Team assesses the impact of material ESG factors on companies’ operations.
Fixed income

Relevant ESG considerations are included in our overall assessment of the creditworthiness of fixed income investments, whether from corporate, sovereign, or quasi-governmental issuers. In the corporate bond market, a company’s behavior is linked to its creditworthiness. Legal and reputational events can affect corporate bondholders as they do equity investors, so it is important that our fixed income analysts engage with companies alongside their equity counterparts.

Engagement with sovereign issuers is just as important for investors as it is with corporate issuers, as we believe there is a clear link between an issuer’s ESG credentials and default risk. Bond investors often face unique challenges when it comes to engagement with sovereign issuers. Nevertheless, our team of sovereign analysts goes to great lengths to engage with central banks and policymakers to better understand ESG factors that could affect a sovereign issuer’s creditworthiness.

Just over a decade ago, a new market for “green” bonds emerged, and issuance has increased dramatically over the last several years. Green bonds are fixed income securities issued to fund environmentally friendly projects. As long-term investors, our analysts see potential opportunities investing in forward-looking companies that are on the leading edge of green innovation.

Asset allocation

ESG considerations have the potential to affect the risks inherent in a multi-asset class portfolio, as well as potential future return opportunities—both from existing holdings and emerging investment themes. We incorporate ESG factors into our strategic asset allocation decisions and have enhanced the process for selecting building blocks that integrate ESG principles into their investment philosophies.

Risk management

While a critical focus of the ESG Investing Team is on individual companies and the sustainability of their business operations, it is also important for our portfolio managers to understand the general ESG footprint of their entire portfolios. The ESG team has spent significant time with portfolio managers to develop an analytics tool that highlights exposure to risks associated with climate, human rights, diversity, and other ESG factors. This tool helps our investment teams make informed decisions about their portfolios from an ESG perspective.
Proprietary ESG ratings: Reflecting Fidelity’s strengths

We have always considered all material factors, including ESG considerations, when evaluating an investment’s potential. More recently, we formally incorporated ESG ratings into our fundamental research process. We are currently expanding a proprietary ESG rating framework that is fueled by Fidelity’s own data sets.

This framework defines a process for evaluating a company’s current and future ESG positioning relative to its peers. These ratings enhance the ability of our investment teams to identify how ESG factors are influencing a company’s earnings outlook.

The rating system leverages the industry expertise of analysts across asset classes and the research expertise of our ESG team. Analysts record key sustainability findings and share them as resources for our portfolio managers globally. Our ratings emphasize key ESG considerations that we believe are financially and operationally pertinent to a company’s long-term performance.

The collaboration between ESG analysts and fundamental analysts is critical in arriving at the weightings of key ESG factors. For example, carbon and toxic emissions will carry more weight for an energy company, whereas product safety and drug pricing will be critical factors for a health care company.

Just as we adapt our fundamental research process over time, we anticipate that our ESG rating framework will evolve as more data becomes available and our investment teams do more research. Since Fidelity’s founding, we have approached investment research with the intellectual rigor, curiosity, and resources that enable us to refine our process as circumstances and conditions change.

Our proprietary ESG ratings have two components. A systematic rating that is quantitative and based on current and historical data provides a current-state assessment of a company’s ESG practices. A forward-looking, fundamental rating provides a qualitative assessment of the company’s sustainability outlook.

We believe that this forward-looking, qualitative component of the analysis is an important differentiating factor, as many ESG data providers focus on disclosure and historical data points rather than anticipating the future trajectory of a company’s sustainability efforts. This aspect of the rating could help smaller companies that lack the resources to reach the disclosure transparency of larger peers. It can also help identify companies that may not currently appear attractive from a sustainability perspective, but are making changes that demonstrate improvement and positive momentum, or vice versa.

“ESG factors are an essential component of our credit research process. I find it exciting and rewarding to invest in companies that are at the forefront of environmental innovation. These investments are helping to address climate change, while also providing our clients and shareholders opportunities to participate in a growing market that aligns with their personal goals and beliefs.”
Fidelity’s proprietary data sets inform our ESG ratings

To avoid potential biases in third-party data, we have developed proprietary data sets on issues such as governance, carbon emissions and toxic waste, and diversity and inclusion, to serve as critical inputs into our ESG rating system. These are just some of the key factors we consider in our ESG evaluation and they can vary by company, business model, industry, and region.

**Governance**

We have developed a governance rating framework centered on three pillars: board quality, compensation, and shareholder rights. Board quality focuses on a company’s relative board independence, composition and refreshment, and diversity. In our view, the quality of the board is often integral to a board’s management and alignment with shareholder interests. Our compensation framework focuses on long-term pay for performance, peer-relative metrics, long-term-oriented pay practices, and pay in alignment with shareholder interests. Finally, we evaluate shareholders’ ability to advocate and advance proposals to company management and the board.

**Carbon emissions and toxic waste**

We focus on companies’ current emissions levels and how they are trending. We incorporate emissions data and rate companies on both their carbon intensity and absolute emissions. A small component of the rating identifies companies that are significant absolute emitters to ensure we properly assess companies with outsized climate impacts. We follow a similar approach for toxic emissions and look at data on environmental compliance, including infractions, violations, and fines incurred for breaching certain regulations, adjusted for company size.

“I believe companies that work effectively with policymakers to accelerate lower-carbon footprints, deliver on transition plans, and innovate are the companies to invest in.”

CARRIE SAINT LOUIS
FIXED INCOME ANALYST—UTILITIES
Diversity and inclusion

Company-reported statistics on workforce demographics provide a snapshot of where a company stands today. It is also important to understand a company’s focus on workforce inclusion initiatives. Therefore, we have developed an analytical framework to provide insight into a company’s approach to retaining, hiring, and promoting diverse talent.

We focus on four pillars: leadership, commitments, culture, and pipeline. Using a combination of proprietary quantitative and qualitative insights, we have identified a series of criteria to rate companies along these dimensions. Our sources include company announcements as well as third-party rankings and indices, which are considered alongside assessments of related negative events.

It is important to note that, in many cases, U.S.-based companies do not yet report their workforce ethnicity data. Consequently, these data components are not yet a uniform part of our scoring system. To aid in our evaluation of companies’ commitments to workforce diversity, inclusive workplace environments, and human capital management, we also seek to obtain and incorporate data on unconscious bias training programs, recruiting partnerships with historically black colleges, and racial diversity at the company board level. We are still working to make our diversity and inclusion methodology more robust in its measurement of racial data and believe that this undertaking will only get easier as more and more companies begin to disclose these statistics.

Diversity:
The range of human differences, including, but not limited to, race, ethnicity, gender, gender identity, sexual orientation, age, social class, physical ability or attributes, religious or ethical values system, national origin, and political beliefs. Diversity in the workplace also recognizes differences in education, personalities, skill sets, experiences, thinking styles, and knowledge bases.

Inclusion:
The active, intentional, and ongoing involvement and empowerment of individuals, where the inherent worth and dignity of all people are recognized and respected. This also includes equitable solutions that promote fairness in outcomes. These solutions may include different types of messaging or experiences that are tailored based on individual needs.
ESG Stewardship in Action: Engage, Vote, Promote
ESG Stewardship in Action: Engage, Vote, Promote

Engagement
When we meet with company management, we discuss a variety of matters that we consider material to our assessment of the long-term enterprise value of the company, including ESG factors. Meetings are supplemented by an informal schedule of site visits and ad hoc calls. Research may encompass customers, suppliers, competitors, external industry experts, sell-side investment analysts, and other shareholders, directly and through intermediary networks.

We employ a variety of different engagement strategies, but they are generally initiated by three distinct groups within Fidelity Asset Management:

**Investment teams:** Our portfolio managers and analysts communicate with companies to maintain strong, constructive relationships. These ongoing interactions provide additional context and information to help us mitigate risks and maximize long-term value for fund shareholders.

**ESG team:** Our ESG analysts prioritize engagement with companies where we 1) want to learn more about progress on specific ESG metrics, 2) are significant shareholders, or 3) have an opportunity to learn about company-specific initiatives or research that may contribute to our assessment of a company’s sustainability profile.

**Governance team:** To encourage best corporate governance practices, and as part of our proxy voting process, Fidelity’s governance analysts engage with companies on topics such as executive and equity compensation plans, director independence, shareholder rights proposals, and anti-takeover mechanisms.

Often, analysts from all three groups attend meetings and information is shared among them to create awareness of different ESG risks and opportunities and to ensure we are well positioned to address them.

ADVANCING DIALOGUE ABOUT ESG RISKS AND OPPORTUNITIES

**Governance**
- Board Quality and Diversity
- Board Oversight
- Executive Compensation

**Human Capital**
- Talent Retention/Attrition
- Diversity and Inclusion
- Culture
Proxy voting

The responsibility to vote on ballot items is an important and integral part of our ESG stewardship and research. Our dedicated proxy voting team reviews every proxy proposal to ensure that our votes accurately reflect Fidelity’s views and the views of each fund’s investment team. In addition, our ESG team evaluates all shareholder proposals concerning environmental and social responsibility. We seek to balance the perspective of company management with our own company-specific concerns. When we determine that the plans put forth by company management do not adequately address our concerns, we may express our view by supporting shareholder proposals or voting against company proposals.

Fidelity has a uniform set of proxy voting guidelines, but all our mutual funds have the flexibility to vote individual proxies based on an assessment of each situation. For example, Fidelity’s ESG-focused mutual funds have the flexibility, based on their individual investment mandates, to vote differently than other funds on specific environmental, social, or governance issues.

Fidelity has 14 in-house governance and proxy associates. Over the course of one year, we participated in 5,700+ shareholder meetings, reviewed 56,000+ proposals, and cast 103,000+ ballots.4
Shareholder proposals

Our goal as investment stewards is to provide clear guidance on what ESG factors we believe are material to each company and to engage and vote accordingly. Therefore, to engage and vote more effectively on the growing number of submitted shareholder proposals, we developed a decision-making framework to ensure that the resolutions we are voting on are financially material, relevant, and provide valuable information to shareholders.

Proxy votes on shareholder proposals are an important stewardship responsibility, but do not represent the totality of the ESG Investing Team’s views on the investment merits of any specific topic. Through our engagement with company management, we seek to understand the current and future plans to address material issues that could affect a company’s future earnings growth.

FIDELITY’S DECISION-MAKING FRAMEWORK FOR SHAREHOLDER PROPOSALS

- Assess materiality
- Review current policy and disclosures
- Determine investment value
- Ensure feasibility
Perspectives on
Key ESG Factors
Perspectives on Key ESG Factors

We believe that the extent of an ESG risk is best understood when all stakeholders are considered. Therefore, our ESG evaluation considers a company’s impact on its various stakeholders and constituencies, including its shareholders, local communities, employees, and the global climate. By considering ESG factors holistically through a stakeholder lens, our investment teams can better capture the totality of a company’s risks and opportunities. Water stress is an example of an ESG concern with multiple layers of risk. It is a critical issue that can halt operations in many industries, but can also heighten tensions between corporations and local communities that may be in competition for the same limited water supply.

Sustainability disclosure

We believe that consistent disclosure standards will improve the quality and comparability of sustainability-related information. Fidelity is actively engaged in industry efforts to provide investors with standardized sustainability information for use in investment decision-making. For example, the company is a member of the Sustainable Accounting Standards Board (SASB) Alliance. In our view, SASB’s industry-specific approach, focused on financially material issues, provides investors with relevant information for better decision-making. We encourage companies to participate in the ongoing process of standards development, so that outcomes will reflect both issuer and investor viewpoints.

Governance

Strong governance is a principle that has always been a critical input into our fundamental research process. In our view, progress on environmental and social issues is often linked to independent and diverse boards capable of steering companies for long-term success. Without strong and constructive corporate governance, we believe companies may lack the incentive structure required to ensure their corporate cultures uphold the pillars of environmental and social sustainability. We are supportive of board actions that do not limit or restrict shareholder rights, such as proxy access and attendance at meetings, and discourage the use of anti-takeover provisions, like classified boards and supermajority vote requirements. In addition to the quality of boards, we evaluate management incentives and shareholders’ ability to intervene when needed, to advocate for themselves or for other stakeholders.

Appropriately structured executive compensation programs that align management incentives with the best interests of shareholders and other stakeholders are critical. Our corporate governance team conducts a thorough and independent compensation analysis that focuses on pay for performance. This analysis facilitates constructive conversations with companies and promotes best practices in compensation programs.
CASE STUDY

Human rights risk assessment

Over the last several years, companies involved in the manufacturing, marketing, and distribution of products have been encouraged to examine and proactively address the impact of their business on human rights across the supply chain. While low-cost manufacturing is an indispensable option, the ability to measure, disclose, and improve on key human rights metrics has set industry leaders apart when it comes to sustainability. Companies that cause, contribute to, or are directly linked to human rights abuses face material risks, including reputational damage, project disruptions, and litigation.

Fidelity engaged with a large company regarding a shareholder proposal to conduct a human rights impact assessment on high-risk product categories. While third-party auditors conduct both announced and unannounced audits at its manufacturers’ sites, the company had not undertaken its own human rights assessments, as many of its peers had done.

We determined that the company had gaps in its disclosures. Management indicated that it had plans to expand its human rights risk assessment but didn’t share a specific timeline for its actions. We determined that the company could provide additional information about its policies and oversight mechanisms to identify and assess the human rights risks to its operations and supply chain.

Although we concluded that voting in favor of the human rights impact assessment study was in the best interest of our shareholders, the engagement with company management was a positive experience. The company adopted many of the actions we had discussed, and the engagement ultimately strengthened our overall assessment of the company’s sustainability profile.
Board leadership
We believe that strong board leadership is a critical component of corporate governance and leads to improved risk oversight and alignment with shareholders. Therefore, we focus on the following key issues related to board structure and compensation:

- **Independence:** We believe that public company boards benefit from majority independence. Board independence is critical to providing unbiased risk oversight and ensuring companies serve the interests of shareholders.

- **Composition/evaluations:** We expect regular evaluations of board members that consider the mix of expertise, knowledge, and diversity. Companies should have mechanisms in place to encourage strategic refreshment of boards. Collectively, these actions help to balance current business needs with the diversity and expertise that may be required in the future.

- **Diversity:** We encourage board diversity across a number of dimensions, including but not limited to, background, gender, race, ethnicity, skills, knowledge, and relative experience. Evidence has shown that diverse groups often make better decisions and are better equipped to mitigate business risks. We believe companies should consider the broadest possible pool of candidates when seeking out new members for boards.

Workplace diversity and inclusion
We believe companies that prioritize health and safety, workplace diversity, retention, and an inclusive corporate culture are more likely to attract and retain high-value talent. Therefore, we examine companies’ diversity and inclusion efforts because we believe they serve as a proxy for good human capital management.

Companies with talent pipeline-building initiatives, like diverse interview slates, intentional diversity recruiting practices, or partnerships with external organizations focused on diversity are better equipped to attract and build more diverse workforces. At Fidelity, we believe that the preponderance of empirical evidence, as well as our own research observations, indicate that companies with more diverse workforces are better positioned to outperform their peers.

We support the development of policies and disclosure on these issues—through both our research engagement and proxy voting—in instances where we identify opportunities to address cultural or structural barriers that may hamper a company’s progress toward building a more diverse workforce.
Climate risk
When we consider climate change, the wide range of potential risks across the global economy can be overwhelming to consider and prioritize. As a signatory of the United Nations Principles for Responsible Investment (UNPRI), the Task Force on Climate-Related Financial Disclosures (TCFD), and Ceres (a nonprofit organization working to address sustainability challenges, including climate change, water scarcity, and pollution), we acknowledge the call to action regarding climate change. We believe that the most immediate opportunity to better address climate risks is to encourage transparency through the disclosure of material and accurate information.
We believe management teams that focus on climate risks are often better positioned to deliver shareholder value over the long term. Therefore, we strive to identify companies that acknowledge and respond to climate risk, and favor those that are innovating to address it in ways that provide tangible value to shareholders.
We do not see climate risk as an edict to divest from particular industries. Rather, we see potential opportunities for more sustainable business practices in carbon-intensive industries. Incremental steps forward for such companies can have a disproportionately greater impact relative to similar efforts by companies in less carbon-intensive industries.
We encourage many of our portfolio companies to prepare for a shift to a low-carbon economy and capitalize on potential opportunities, such as renewable energy alternatives and innovative technologies. We foresee a competitive advantage and risk-mitigation benefits for companies that undergo this scenario planning analysis, and reflect this view through engagement and proxy voting.
Through discussions and engagement, we seek to learn more about company management’s focus on environmental sustainability issues. We expect any environmental sustainability programs and initiatives to be pertinent to the company’s operations. For example, industrial conglomerates may focus on specific toxic waste reduction goals, while oil and gas companies should consider carbon emissions targets. Our engagement centers on understanding how relevant environmental sustainability goals are linked to management metrics and compensation incentives.

Water stress
Water stress and scarcity are not only issues for companies in the water industry. Several other industries are water-intensive users, such as extractives businesses and beverage companies. Therefore, for any industries where water use is an essential part of operations, we look for companies with disclosures on their water resource use and clear strategies for mitigating the impact. We engage with these companies to determine whether they choose prudent business locations and focus on efficient water use at facilities located in areas where clean water is scarce.
CASE STUDY

**Climate risk disclosures in financial services**

We expect financial services companies to readily provide disclosure around company-specific climate exposure, including trends in their lending, underwriting, and financing practices, as well as the scenarios they use to assess risks to their individual portfolios. While direct exposure to high-risk sectors such as oil and gas is one important part of the equation, gauging how companies evaluate and protect against climate risk more broadly is also critical.

The Financial Stability Board created the Task Force on Climate-Related Financial Disclosures (TCFD) to develop a set of recommendations for voluntary and consistent climate-related financial risk disclosure. Fidelity has engaged large lenders to understand how they are implementing and reporting on the TCFD recommendations to better gauge their overall exposure to risk in their lending and underwriting businesses. Central banks across the globe have called for more climate change disclosure, and the Network for Greening the Financial System has highlighted scenarios to be used for evaluating climate change governance in financial services.

We engaged with a financial services company to discuss its TCFD reporting. We indicated to management that as a financier of fossil fuel-related investments, the company has a critical role in financial services when it comes to climate-related risks and the potential effect on shareholders. Additionally, the company’s competitors had provided more detailed TCFD reporting, highlighting portfolio exposures at risk, clear risk targets and metrics, and strategies to ensure they meet them.

During our conversations, management stated that it would provide financing commitment targets and noted plans to engage with clients regarding their long-term business strategies and related carbon disclosure.

These plans reflect steps the company is taking to improve its reputation around climate change and take a more forward-looking stance on environmental financing. While some of these points are still being finalized, this company’s progress demonstrates the expertise that Fidelity can provide when companies engage with our ESG Investing team about sustainability disclosure.
Investing in Our Future

More than a decade ago, Fidelity established a Chief Sustainability Officer role and launched a cross-company ESG steering committee to provide guidance on the company’s environmental efforts. But long before the establishment of a formal position, sustainability at Fidelity was focused on practical approaches for resource efficiency and conservation. We are now integrating sustainability perspectives across our business strategies, products, and services.

The evolution of Fidelity’s ESG investment research has had a positive impact on our long-standing efforts toward becoming a more sustainable company. Our ESG research increases our understanding of innovation in sustainability initiatives, which helps inform our internal operating plans and priorities.
We provide our shareholders with the ability to invest consistent with their values, while also seeking to deliver long-term investment value. We offer ESG strategies focused on themes such as sustainability, alternative energy, and gender diversity.

**Women’s Leadership Fund**

The philosophy of the Women’s Leadership Fund is to invest in companies that prioritize and advance women’s leadership and development. To be considered for the fund, companies must meet at least one of the following three criteria:

1. Women in leadership, such as in the role of CEO or on the management team
2. Women represent at least 33% of the board
3. Best-in-sector gender diversity initiatives and policies

Best-in-sector companies based on gender diversity initiatives and policies are identified by Fidelity proprietary research after assessing numerous factors, including diversity commitments, unconscious bias training, pay gap, and leadership development programs. Research studies have suggested a positive correlation between gender diversity and profitability. We have found that top-scoring companies on Fidelity’s diversity screens have also shown favorable financial characteristics, such as strong return on equity, earnings stability, and earnings growth. Our fundamental research process uses both quality and growth analysis to construct a diversified all-cap portfolio of about 100 to 150 companies, with up to 20% of companies based outside the United States.

Prospectus information and fund pricing and performance can be found at Fidelity.com/FWOMX.

NICOLE CONNOLLY
PORTFOLIO MANAGER
WOMEN’S LEADERSHIP FUND
Company highlight: Williams-Sonoma, Inc. (WSM)

A specialty retailer focused on both cookware and furniture under brands that include Pottery Barn, Williams-Sonoma, and West Elm, WSM is one of only six companies in the Fortune 500 that has both a female CEO and CFO and has 50% female board representation. Sixty percent of WSM’s revenues are from e-commerce and growing rapidly. West Elm is growing by double digits with brand awareness at just 25% of relevant consumers. Furniture is a fragmented market and the company’s strong brand positioning has the potential to result in further share gains.

Multi-stakeholder philosophy: During the COVID-19 pandemic when many retailers were furloughing employees, WSM continued to pay its employees while its stores were closed, electing to forego store remodels and advertising to ensure the well-being of employees. We believe that companies such as WSM—which recognize the disproportionate impact of the pandemic on minorities and women and are focused on factors such as work-life balance, culture and values, compensation and benefits, senior management sentiment, and career opportunities—are generally more resilient. They often show greater ability to innovate, a constructive approach to human-capital management and investment in new talent, and flexibility in managing their supply chains. These factors tend to be key drivers of long-term profitability and return to shareholders.

Commitment to sustainability: Williams-Sonoma currently certifies 100% of its Pottery Barn Kids furniture as low emissions under strict guidelines (exceeding regulations), and is on track to meet goals of 100% responsibly sourced cotton and 50% responsibly sourced wood by 2021, building on nearly two decades of sustainable supply-chain practices and policies.

Commitment to diversity: The company has been recognized for its commitment to diversity and appeared on Forbes’ 2020 list of “Best Employers for Diversity.”
The Water Sustainability Fund is focused on taking action to address the global water crisis by investing in companies at the forefront of developing new technologies. Investors in the fund have exposure to innovative and disruptive companies that are strong stewards of sustainability and specialize in new water technologies, data, and infrastructure.

The global water industry is estimated at approximately $780 billion and growing by four to six percentage points per year. Fidelity believes that investing in water—which has had an attractive risk and return profile over the past 15 years—may be a secular trend, as there is increasing awareness of the water scarcity problem and growing urgency to solve it.

More than 2 billion people in the world do not have access to safely managed drinking water and by 2025, two-thirds of the world population could be living in water-stressed countries. This crisis has resulted from a combination of insufficient infrastructure, population and economic growth, and climate change. The global water supply is finite, but demand for clean water is accelerating alongside population growth. Climate issues are exacerbating the risks of reduced access to fresh water. As a result, water initiatives encompass at least four of the 17 United Nations Sustainable Development Goals.

The Water Sustainability Fund seeks to find best-in-breed companies around the world that are working to improve the availability and abundance of safe, reliable, and affordable water. Intensive fundamental research and disciplined portfolio construction lead to a relatively concentrated portfolio of the manager’s best ideas, containing approximately 30 to 40 companies from around the globe.

Prospectus information and fund pricing and performance can be found at Fidelity.com/FLOWX.
Company highlight: Xylem Inc. (XYL)

Xylem is a market leader, with industry-leading products and technology throughout the water cycle that help combat water scarcity, build greater resiliency, and enhance water affordability. XYL has made early investments in differentiated technologies and business models within communication systems, metrology, energy efficiency, data analytics, and advanced infrastructure analytics. XYL’s management team has a strong focus on shareholder returns, value-accrative growth, and creating social value.

XYL is a leader in serving customers, building a sustainable company, and empowering communities. According to XYL’s 2019 Sustainability Report, the company creates social value by “providing water-related disaster relief expertise, technology and equipment to communities in need, by educating and raising awareness about water challenges, by inspiring the next generation of water stewards, and by tapping into the passion of our employees and stakeholder volunteers to give time to local water-related causes.” In 2019, XYL launched a sustainability strategy that included ambitious 2025 sustainability goals.

Fidelity and XYL’s management team have worked closely together for years. Together, we have performed deep dives on products and segments during trade shows, traveled globally to perform due diligence on the water sector, researched how to combat pollution, and presented at the 2018 American Water Summit.

JANET GLAZER
PORTFOLIO MANAGER
WATER SUSTAINABILITY FUND
What’s Next?

**Active stewardship**
We will continue to engage regularly with our portfolio companies to promote productive dialogue about sustainability and help us be strong stewards of our shareholders’ investments.

**Knowledge and education**
We remain focused on providing educational ESG resources and insights to our investment teams, understanding that together we can engage in and support Fidelity’s ESG efforts on behalf of our shareholders.

**ESG integration into the investment process**
By further developing our proprietary ESG ratings, which are important components of our fundamental research, we will continue to identify companies on a path toward improving their ESG profile.

**Product development**
Our commitment to ESG evaluation will foster the development of more solutions that respond to evolving customer preferences.

“I take great responsibility in my role helping to establish our own perspectives on what ESG issues are material when evaluating companies. We then use that information to develop our own ESG ratings that help guide our portfolio managers in investment selection and sizing. As we engage with companies on these complex and nuanced issues, I’m optimistic that we will continue making a difference on behalf of our clients and shareholders.”

DAVID KING
HEAD OF ESG STEWARDSHIP
Endnotes

1 As of Sep. 30, 2020.

2 Source: IEA.org. The UN Intergovernmental Panel on Climate Change (IPCC) report “Mitigation Pathways Compatible with 1.5°C in the Context of Sustainable Development,” Fidelity Investments, as of Dec. 31, 2018.

3 See endnote 1.

4 Based on the most recent proxy disclosure year: Jul. 1, 2019, through Jun. 30, 2020.


6 Source: FactSet, Fidelity Investments, as of Nov. 18, 2020.

7 Source: Company call transcripts, validated by WSM, as of Nov. 19, 2020.

8 See endnote 7.

9 Industry size estimated by Global Water Intelligence (GWI) and represents capital expenditures and operating expenditures by global customers. GWI’s country-level forecast is calculated by adding up forecasts for capital expenditure and operating expenditure in each sector. GWI divides its capital expenditure forecast by application and technology based on the most prevalent options in each sector, and divides its operating expenditure forecast by application and spending category. Source GWI, as of July 2020.


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Diversification and asset allocation do not ensure a profit or guarantee against loss.

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

Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Although bonds generally present less short-term risk and volatility than stocks, bonds do contain interest rate risk (as interest rates rise, bond prices usually fall, and vice versa) and the risk of default, or the risk that an issuer's will be unable to make income or principal payments.

Additionally, bonds and short-term investments entail greater inflation risk—or the risk that the return of an investment will not keep up with increases in the prices of goods and services—than stocks. Increases in real interest rates can cause the price of inflation-protected debt securities to decrease.

Because of its narrow focus, sector investing tends to be more volatile than investments that diversify across many sectors and companies. Sector investing is also subject to the additional risks associated with its particular industry.

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Investing based on environmental, social and corporate governance (“ESG”) factors may cause a strategy to forgo certain investment opportunities available to strategies that do not use such criteria. Because of the subjective nature of ESG investing, there can be no guarantee that ESG criteria used by Fidelity in its ESG strategies will reflect the beliefs or values of any particular client. Additionally, Fidelity must rely upon ESG-related information and data obtained through third-party reporting that may be incomplete or inaccurate, which could result in Fidelity inappropriately evaluating an issuer's practices with respect to ESG factors.

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Women's Leadership Fund 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 Adviser's applications of the fund's strategy criteria may not achieve its intended results and the fund could underperform the market as a whole.

Fidelity Water Sustainability Fund Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Different parts of the market, including different market sectors, and different types of securities can react differently to these developments. Foreign markets, particularly emerging markets, can be more volatile than the U.S. market due to increased risks of adverse issuer, political, regulatory, market, or economic developments and can perform differently from the U.S. market. Emerging markets can be subject to greater social, economic, regulatory, and political uncertainties and can be extremely volatile. Foreign exchange rates also can be extremely volatile. The water sustainability theme can be significantly affected by demographic, irrigation and industrial usage trends, viability of infrastructure projects, conservation practices, pollution, waste, and environmental factors, including weather, droughts, and flooding, as well as the performance of the overall economy, interest rates, consumer confidence, and the cost of commodities. Regulations and policies of various domestic and foreign governments may affect water usage, contamination, and reusability. The value of an individual security or particular type of security can be more volatile than, and can perform differently from, the market as a whole. The value of securities of smaller issuers can be more volatile than that of larger issuers.

Before investing, consider the fund's investment objectives, risks, charges, and expenses. Contact your investment professional or visit fidelity.com, i.fidelity.com, or 401k.com for a prospectus, or a summary prospectus if available, containing this information. Read it carefully.

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