2022–2023
Sustainable investing and stewardship update
Putting our customers’ interests first and investing in issuers that share our approach to creating value over the long-term guides everything we do, from developing new products, to the way in which we conduct investment research and manage customers’ assets. These core principles sit at the heart of our investment and stewardship activities and are part of our more than 75-year history of helping to strengthen and secure our customers’ financial well-being.

This year, we continued to build on our commitment to deliver clients choice by remaining focused on the proprietary research and investing principles that have always guided us. Our sustainable investment research prioritizes the same intellectual rigor and proprietary analysis that shape all our active management capabilities. We believe that consideration of sustainability risks and opportunities is an essential component of a world-class fundamental research process. Fidelity’s sustainable investment research is focused on the impact that sustainability factors may have on the financial performance of a particular issuer so that we are better positioned to capitalize on the investment risks and opportunities they may present.

Actively engaging on financially material topics enables our stewardship, proxy, fundamental research and sustainable investment teams to meet our fiduciary responsibilities. As active investors, we believe that productive engagement and proxy voting can improve communication with companies, enhance financial returns, and are central to our role as an active manager and steward of our clients’ capital. We see stewardship as a critical tool for addressing material risks and opportunities in portfolios to help generate long-term value for our customers. In the past year, we updated our stewardship principles, sustainability statement of policy, and proxy voting guidelines to reflect our evolving approach to sustainable investing and stewardship.

During our research and engagement with the issuers in our portfolios, our teams are specifically focused on issuers’ allocation of capital and the returns generated by that capital. Our approach encompasses operational capital (governance structures and processes), human capital (including employees, customers, suppliers, and host communities), and natural capital (environmental and natural resources). As long-term stewards of our clients’ assets, we evaluate
issuers’ deployment of all types of capital at their disposal in support of value creation or to mitigate risks that would diminish shareholder value. Our latest stewardship principles reflect this approach and allow us to better delineate our focus on financially material topics, while providing greater clarity to clients and to issuers through our engagement.

We continue to increase the coverage of our fundamental forward-looking environmental, social, and governance (ESG) ratings, covering over 90% of the S&P 500® index and over 80% of the MSCI All Country World Index as of June 30, 2023. Our materiality maps and ESG ratings underpin our research and engagement approach. Our sector partner teams—made up of fundamental analysts covering sectors across fixed income, equities, and sustainable investment research—collaborate to develop and update sector-specific engagement guides detailing relevant questions to ask. We completed our annual refresh of our materiality maps and engagement guides in December 2022.

We continue to enhance our research capabilities and proprietary datasets. This year those enhancements included new models that offer improved estimation capabilities for assessment of Scope 3 greenhouse gas emissions (emissions from both upstream supply chains and downstream product use).

To further support our stewardship efforts, we launched a new internal engagement tracking tool. The tool allows members of our sustainable investing team to track engagements by company and topic and assess progress. In the fiscal year July 1, 2022–June 30, 2023, we held over 800 stewardship engagements, including nearly 400 sustainability-focused engagements and over 450 proxy-focused engagements.

Our enhanced proxy voting guidelines include additional perspectives on board composition, hold members of the executive compensation committee accountable when voting against pay-related proposals, and ensure sufficient director time and attention to company matters by limiting outside directors’ service on unaffiliated public company boards. Worldwide, we cast approximately 52,000 votes at over 4,800 company meetings during the 12-month period ended June 30, 2023, relatively in line with prior year volumes.

As we look ahead, we remain committed to building our expertise in sustainable investment research and stewardship and are excited to share our latest progress and priorities.

Unless otherwise noted, all data and statistics in this report are as of June 30, 2023. These figures reflect the resources of Fidelity Management & Research Company.
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An update on sustainable investment research

As the landscape of sustainability data and research continues to evolve, Fidelity is leading the way with fundamental and quantitative research and is actively engaged in industry conversations and investment stewardship. In the 2022–2023 season, we continued to assess and enhance our approach to sustainability research as part of our steadfast commitment to pursue long-term value, including by making significant investments in dedicated resources and talent to support our clients. We are committed to investing in additional talent and education initiatives to foster greater understanding of sustainability issues and build our internal expertise.

Research on financially material sustainability factors is guided by the same intellectual rigor and proprietary analysis that shapes all our active management capabilities. Fidelity’s sustainable investing team collaborates with analysts across our equity, fixed income, and high-income research teams, organized by sector coverage, to determine the material sustainability factors for each industry. We call this cross-asset-class collaboration our “sector partner” model. These sector partner teams created a set of materiality maps, which define the relative importance of each sustainability factor to each industry. The maps are based on the research-based Sustainable Accounting Standards Board (SASB) frameworks, and the sector partner teams enhance them based on their deep sector-specific expertise. Each industry’s materiality map lists the material sustainability factors that our team believes are most critical to driving the business fundamentals of a particular sector or industry. The materiality maps are refreshed annually as new insights emerge to ensure the factors identified are relevant, financially material, and properly weighted to reflect our analysts’ most current bottom-up research. Our annual refresh was completed in December 2022 and we plan to continue to refresh these foundational documents on that timeline.

<table>
<thead>
<tr>
<th></th>
<th>SYSTEMATIC ESG RATING</th>
<th>FORWARD-LOOKING FUNDAMENTAL ESG RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ownership</strong></td>
<td>Sustainable investment team with fundamental analyst output</td>
<td>Sustainable investment team and fundamental analysts</td>
</tr>
<tr>
<td><strong>Input</strong></td>
<td>Materiality assessment, direct company and third-party data, quantitative models</td>
<td>Materiality assessment, corporate sustainability reports, company engagements</td>
</tr>
<tr>
<td><strong>Horizon</strong></td>
<td>Current snapshot</td>
<td>Forward-looking</td>
</tr>
<tr>
<td><strong>Output</strong></td>
<td>Sector relative rating (A–F)</td>
<td>Sector relative rating (1–6)</td>
</tr>
<tr>
<td><strong>Coverage</strong></td>
<td>&gt;7,000 companies representing ~90% of global AUM</td>
<td>&gt;1,500 companies representing ~80% of global AUM</td>
</tr>
</tbody>
</table>

* Coverage of major U.S. equity indices. Source: Fidelity Investments. For illustrative purposes only. Coverage data as of 6/30/23. Global AUM figures not precise. Companies are evaluated and ratings are assigned on a sector-by-sector basis. Material sustainability issues may differ by sector.
Our proprietary ESG ratings provide a framework for evaluating a company’s current and future positioning relative to its peers and rely on the materiality maps created by our sector partner teams. These ratings enhance our ability to identify the influence sustainability factors can have on a company’s earnings outlook, business model, and strategic vision. Our corporate systematic and fundamental ratings help provide a comprehensive view of a company’s positioning on financially material sustainability factors. In structuring the ratings, we used a sector-relative approach so that we could highlight the companies with the best and worst material sustainability profile within a sector. The ratings are refreshed regularly, and our coverage of the investable universe adjusts as data becomes available and new coverage is launched.
Enhancing our proprietary models and data to support fundamental research

Our proprietary datasets may include information disclosed in corporate social responsibility reports, company or government agency websites, or other sources. These types of data are generally not available in a structured form from any other source making Fidelity’s deep quantitative and fundamental expertise critical to our effort to continue to incorporate new and emerging data into our analysis.

Enhanced carbon framework

Carbon emissions modeling aids in evaluating companies’ relative positioning for a low-carbon transition, helping to identify potential transition-related business risks or opportunities. Traditional climate modeling and third-party data have focused on companies’ current and historical emissions. The underlying data is often self-reported, based on estimates and methodologies not necessarily comparable across companies, and subject to yearly revisions, raising questions about data quality and reliability. Forward-looking evaluations are more relevant for investment decision-making, but these require confidence and stability in the datasets the forward-models rely on.

Recently, significant improvements were made in science-based climate data estimation and modeling, which have enabled the development of more accurate and forward-looking forecasts using advanced machine learning approaches. We have leveraged these advancements to enhance our carbon emissions model by incorporating forward-looking information from companies’ projected decarbonization pathways. The transition pathway analysis is aided by our new proprietary Scope 3 model, which allows us to estimate and evaluate carbon emissions throughout a company’s entire value chain—even for companies not reporting this information. By addressing these limitations, we can provide a more comprehensive understanding of a company’s value-chain emissions and its competitive positioning in the transition.

Source: Fidelity Investments, as of June 30, 2023.
Research in action

Our sustainable investment research focuses on identifying the potential risks and opportunities posed by sector-specific financially material sustainability factors, informing our investment decisions.

The securities mentioned are for illustrative purposes only and not necessarily current holdings invested in by FMR LLC. References to specific issuers or securities should not be construed as recommendations or investment advice. The statements and opinions are subject to change at any time, based on market and other conditions.

Past performance is no guarantee of future results.
RESEARCH CASE STUDY

Air Liquide: Growth acceleration through energy transition

European industrial gases supplier Air Liquide was historically perceived as a defensive quality company with growth in the low single digits as of the launch of the ESG rating coverage. Until 2020, investors were largely focused on margin improvement, as industry consolidation was a strong tailwind driving efficiencies and pricing optimization. Perhaps getting less attention from the investment community, the company had embarked on a journey to decarbonize and adapt the business model to capitalize on the energy transition. As Board Chair Benoit Potier noted in the company’s first sustainability report, published in 2021, “Sustainability is now firmly embedded in our long-term performance as a concrete commitment and an integral enabler for value creation.”

When we initiated sustainable research coverage in 2021, the company derived approximately 10% of sales from the production of grey hydrogen, which it supplies to industrial customers, for use in refining petroleum, treating metals, or producing fertilizer and other chemicals. While many companies are new to the carbon capture space, Air Liquide has been exploring advanced carbon capture solutions since early 2000. Since 2015, the company has been operating new types of industrial-scale carbon capture technologies at a grey hydrogen production facility in France, allowing the re-classification of grey hydrogen to blue hydrogen (as the CO₂ is captured and used rather than released into the atmosphere).

THE AIR LIQUIDE HYDROGEN RAINBOW

Grey Hydrogen
The most common form of hydrogen today, produced in steam methane reformer (SMR) or similar process fed by natural gas or other hydrocarbons mixed with steam, associated carbon is released into the atmosphere.

Blue Hydrogen
Hydrogen produced from SMR fed by natural gas or other hydrocarbons mixed with steam (as with grey hydrogen), but associated carbon is captured and used or stored (CCUS) rather than released.

Green Hydrogen
Hydrogen produced from electrolysis of water using clean electricity or renewable power sources, resulting in no greenhouse gas emissions at any stage of the production process.

Our research identified the potential for accelerating organic growth, driven by investments in the energy transition by industrial manufacturing companies, including new customers in the concrete, chemicals, and steel sectors. We expected these new customer segments to help drive increased demand for Air Liquide’s hydrogen and carbon capture products in Europe. Because Air Liquide uses third-party electrolyzers to produce green hydrogen, the company outsources its electrolyzer technology risk via joint venture with Siemens Energy, making it more attractive in our view when compared with relatively higher risk technology providers and engineering, procurement and construction (EPC) companies.

Our in-depth thematic research on the carbon capture and storage (CCS) value chain highlighted carbon storage as a key risk for companies operating CCS businesses. Air Liquide has taken steps to limit exposure to carbon storage-related risks via partnerships with oil and gas companies for storage capacity. These partnerships leverage a core competency of the oil and gas players while mitigating Air Liquide’s exposure to storage risks, further cementing our conviction in the company. Finally, a key part of the analysis was identifying Air Liquide’s competitive advantage, which should allow profitable growth. Air Liquide owns ~2000km of hydrogen pipeline and has built a captive customer base in industrial parks over the last 30 years. This network is difficult to replicate, creating a competitive moat, and allows Air Liquide to sell blue and green hydrogen to existing industrial customers who view continuous supply as a mission-critical feature. Air Liquide’s network with multiple backup units and connection points to existing hydrogen pipelines makes the company a preferred hydrogen supplier.

The opportunities uncovered by our investment research included potentially higher growth rates, driven by growth in customer order backlogs and strong demand for hydrogen and carbon capture services, which have since been recognized by the broader market.

A note on process: Research on Air Liquide demonstrates strong collaboration between fundamental equity and sustainable analysts to identify potential winners amid the transition toward low carbon economy, showcasing our sector partner model in developing actionable research for our investment teams. This began with our materiality map for the sector and geography, where carbon emissions is identified as a financially material factor for the group and was followed by collaboration on initiation of coverage and ongoing engagement with the company.
Our commitment to investing in talent and educational initiatives

Fidelity continues to support talent development and industry initiatives to enhance capital markets and build internal expertise and awareness of financially material sustainability factors.

Fidelity Sustainable Investing Energy Efficiency Conference—March 2023
We hosted leading international companies and expert speakers in London in March 2023 for integrated sustainable/fundamental discussions centered on energy efficiency. Companies presenting included Wienerberger AG, Kingspan Group, Sika AG, Schneider Electric SE, Siemens AF, Grainger Barratt PLC, and Prologis Inc.

Columbia University’s Climate School—Virtual Learning Series 2022–2023
The sustainable investing team partnered with Columbia Climate School to develop a curriculum focused on increasing climate literacy across Fidelity’s asset management team. The curriculum covered physical risk and climate solution technologies—like carbon capture and hydrogen—leveraging experts within the Climate School’s network.
Engagement

Engagement with companies has been at the core of Fidelity’s bottom-up fundamental research analysis since our founding. Engagement is the direct interaction with management, directors, and key constituents of an issuer. When meeting with issuer’s executives and directors, we prioritize engagement on financially material risks and opportunities identified by our research. When feasible, our aim is to engage across the capital structure, and we believe coordination among asset classes delivers better and more efficient outcomes over time.

Engagement provides us with an opportunity to develop a better understanding of issuers’ current and future plans, encourage issuers to consider activities that will make them better investments in the long term, and increase transparency on oversight and process by providing investment-decision-relevant information. In the proxy year ended June 30, 2023, members of the Fidelity investment team held approximately 16,000 meetings with approximately 6,000 different issuers. Around 800 of those meetings were stewardship engagements where members of the Fidelity team engaged in two-way dialogue and the primary focus was on topics related to sustainability or proxy items.

**Firm-wide engagement by the numbers**

For the proxy year July 1, 2022–June 30, 2023

<table>
<thead>
<tr>
<th>Engagement activity</th>
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<tbody>
<tr>
<td>~16,000 Meetings held by members of the investment team</td>
</tr>
<tr>
<td>~6,000 Individual companies met with</td>
</tr>
<tr>
<td>~800 Stewardship-focused engagements</td>
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<tr>
<td>~150 Issuer-attendees at Fidelity-hosted Corporate Access Webinars</td>
</tr>
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</table>

### Meetings by geography

<table>
<thead>
<tr>
<th>Region</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>58%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>21%</td>
</tr>
<tr>
<td>Europe, Middle East, Africa</td>
<td>21%</td>
</tr>
</tbody>
</table>

### Fidelity material stewardship engagement topics by frequency

- Corporate Governance
- Human Capital Development
- Carbon Emissions
- Supply Chain

*Note: many meetings include multiple topics for conversation; topics not listed in any particular order. Includes sustainable investing engagements on corporate governance and all engagements led by the Investment Proxy Research team. Source: Fidelity Investments, as of June 30, 2023.
Tools to support engagement: Fidelity corporate access

Corporate relationships are an integral part of Fidelity’s investment process. Our investment professionals value building ongoing relationships with strong two-way communication. To better enable these interactions and bring the right people together, we developed the Fidelity Corporate Access Portal to provide companies with direct access to relevant Fidelity professionals.

To further our commitment to transparency and open dialogue with our investee companies, our Corporate Access team organized corporate webinars in February 2023 for the Americas, Europe, Middle East and Africa (EMEA) and Asia-Pacific regions with members of investment stewardship, fundamental research, sustainable investment research, and investment proxy research to discuss our proxy voting guideline enhancements, research and engagement process, and answer questions. About 150 issuer-representatives attended the webinars, which included simultaneous translation for the Asia-Pacific region.
Engagement in action

As active stewards of capital, we believe engagement is one of the most effective ways to establish long-term relationships with the issuers in our portfolios and improve investor outcomes. We use engagement to build the foundations for robust dialogue and long-term trust.
ENGAGEMENT CASE STUDY

Amazon Inc.

### Material Factor

#### Packaging Materials & Waste

**Context**

Given the metric tons of product it ships annually in the United States, multi-national online retailer and technology company Amazon Inc., is subject to significant costs related to packaging material and waste. In our view, information about plastics packaging and reduction progress would help investors better understand materials costs, while reducing shipped content could help the company control delivery fees, directly contributing to the bottom line.

The company had previously announced plans to reduce reliance on the use of plastics in several areas (including products manufactured by other companies, packaging for shipment and delivery, and Amazon private label products) and discussed initiatives to design packaging that uses less plastics and promotes recyclability. Despite these initiatives, our research noted Amazon did not provide an overall baseline amount of plastic used throughout the supply chain, making it difficult to track and assess progress as compared to peers who disclose overall use of plastic in operations and have set reduction targets. Further, it had no publicly disclosed goals around single-use plastic reduction—a key cost consideration for a retailer of its size and scale—making it difficult to track and assess progress.

**Dialogue**

The topic has been a meaningful part of Fidelity’s conversations with relevant Amazon staff and members of the board of directors in our regular engagement, encouraging the company to consider sharing additional metrics and set robust reduction targets while keeping in mind business growth objectives.

**Outcomes or Progress**

Following two years of engagement as well as Fidelity support for shareholder proposals asking for additional reporting on plastics and packaging on the annual proxy (2021: 35% support, 2022: 48.9% support²), Amazon published additional detail on packaging volumes and reduction efforts in December 2022 in their report “How Amazon Is Reducing Packaging.” Amazon’s packaging reduction report, alongside recently announced initiatives that move to 100% recyclable paper-based packaging in Europe and other select locations, represent firm steps in the right direction. The report includes total metric tons of single-use plastic used across the global shipping operations as well as average plastic packaging weight per shipment metrics. Although this report provides important baseline information, in 2023 we again voted in support of a shareholder proposal encouraging additional reporting to underscore the need for greater accountability and encourage the company to go further. To allow investors to better understand the packaging content and cost related to shipments, we continue to encourage the company to share additional metrics like average packaging content costs and packaging weight per shipped ton, alongside sharing firm absolute reduction or reduction-in-packaging-material-per-volume shipped targets.

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² Source: Amazon annual meeting of shareholders & proxy statement, May 2021 and May 2022.
# ENGAGEMENT CASE STUDY

## Kansai Electric Power Co. (KEPCO)

<table>
<thead>
<tr>
<th>Material Factor</th>
<th>Health &amp; Safety and Community Relations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Context</strong></td>
<td>We met with Kansai Electric Power Co.’s (KEPCO) environmental planning and corporate planning management teams in the spring of 2023 to cover several sustainability related topics, including health and safety, and community relations risks posed by the restarting of KEPCO’s nuclear reactors. Colleagues from our global offices, including investment analysts in Tokyo, the sustainability team in London, and the proxy voting team in Boston, joined the meeting.</td>
</tr>
<tr>
<td><strong>Dialogue</strong></td>
<td>In our view, nuclear is likely to be an attractive part of the composition of power sources in a sustainability context, given its ability to produce reliable baseload power and profile as a zero-carbon power-source. Nonetheless, we are cautious about its safety from a health and community relations perspective. Consequently, we focused our engagement on addressing carbon emissions reduction by substituting nuclear power generation for thermal power generation while noting our caution given the potential safety risks nuclear poses. We encouraged the company to share more detailed plans with both investors and local communities to build confidence in the nuclear strategy.</td>
</tr>
<tr>
<td><strong>Outcomes or Progress</strong></td>
<td>Reflecting our concern about the safety profile of the company’s nuclear power plants, KEPCO updated investors on the additional construction work that had been performed ahead of the restart of the nuclear reactors to ensure safety. The company has invested meaningful capital to improve the safety of their nuclear power plants while proactively engaging key local officials and community members to gain local community support. The meeting helped us better understand the efforts that KEPCO is taking to reduce carbon emissions by substituting nuclear power generation for thermal power generation, while ensuring the safety profile of the nuclear power plants with additional construction and maintenance work ahead of the restarting of operations. Our engagement with KEPCO contributed to building our confidence that KEPCO is successfully executing on its business strategy and environmental efforts while building stronger community relationships that may help in mitigating local community anxiety about nuclear operations.</td>
</tr>
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## ENGAGEMENT CASE STUDY

### Kering

<table>
<thead>
<tr>
<th>Material Factor</th>
<th>Water Stress</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Context</strong></td>
<td>As a global luxury goods company, Kering relies on a high quality raw materials’ supply chain—including cotton and leather—for textiles, footwear, and accessories. Over 10 years ago, Kering launched its Environmental Profit &amp; Loss Account (EP&amp;L), a unique tool that estimates the environmental impact of all the group’s activities—from raw material sourcing to use and end of life phases. The results can be explored on Kering’s publicly available interactive map, which highlights how Kering's environmental risks mainly lie within its supply chain and are linked to the production and first transformation of its raw materials. The company has historically focused on both direct water consumption in operations (store cleaning, sanitary facilities, etc.) and water used for industrial purposes in its tanning facilities, but our research suggested the company had made less progress on water risks posed by the cotton supply chain. Cotton cultivation and leather tanning processes both consume large quantities of water making these supply chains particularly water intensive. Compounding this problem, the regions that tend to grow cotton also tend to be particularly exposed to water scarcity risk due to lack of water supply and rising regional temperatures. Currently, the company is working to source rain-fed cotton that is less reliant on local and regional water supplies. But global supply for rain-fed cotton is relatively limited, putting Kering's luxury clothing at risk for water-related supply chain disruption.</td>
</tr>
<tr>
<td><strong>Dialogue</strong></td>
<td>We met with Kering to better understand the company’s strategy to address water-related risks in the cotton supply chain, noting the company’s current annual reporting appears to indicate a focus on tackling water stress at tanneries, but that information about cotton cultivation water-use was limited. Over the course of our engagement, the company agreed that cotton producing is extremely water intensive and shared the company is deepening its assessment of water use and water scarcity in key sourcing areas for cotton, including by piloting the Science-Based Targets for Nature’s (SBTN) Freshwater methods. Kering also shared plans to map its cotton sources to enable better identification of the company’s cotton sourcing from water-stressed areas and aid in determining alternative geographies for cotton sourcing.</td>
</tr>
</tbody>
</table>

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3 A collaboration of over 80 leading NGOs and mission-driven organizations dedicated to the development of robust methods for businesses to take science-based actions to protect our Earth’s climate, freshwater, land, oceans, and biodiversity. Kering has been a member of SBTN’s Corporate Engagement Programme (CEP) from its start in 2020. The CEP is a group of companies aiding in the development of these tools and guidelines.
In the latest “Universal Registration Document 2022” published in March 2023, Kering enhanced its reporting to include efforts to reduce water use in the supply chain, noting a specific focus on textile suppliers. As part of the SBTN pilot work, Kering assessed the water use and water pollution (with a focus on nutrient pollution, as requested by SBTN) associated with all of its cotton sourcing around the globe using data from its EP&L. The result is a thorough inventory that identified the priority water basins where Kering is working to set science-based targets to reduce water use and water pollution (as well as an additional set of targets related to land use). The company expects to submit targets for Freshwater and Land to the SBTN Validation team in December 2023. In addition, Kering is actively working with its Houses and Suppliers to encourage the use of fibers with a low environmental footprint, including water usage (for example linen, hemp, kapok, etc.), alongside the most commonly used sustainable cotton blends.

Given the wide scale of its cotton sourcing in the supply chain, these initiatives represent meaningful steps to reduce Kering’s exposure to water-related risks while also reducing the associated strain on water sources and communities which rely on them. We view these initiatives as indication of the company's commitment to address relevant supply chain water-related risks and view the progress positively.
Engagement in action: Thematic focus

We have three ongoing enterprise engagement initiatives that further refine our prior focus on topics related to climate risk and diversity and inclusion:

**Projected abatement capacity**: We find climate risk is impacting the future financial performance of companies unevenly. Similarly, not all companies have an equal ability to reduce their carbon footprints, making target setting for some issuers impractical or aspirational at best. By introducing economic feasibility back into conversations about greenhouse gas emissions abatement capacity, we hope to identify opportunities for reduction that bring strong economic benefit while acknowledging those portions of a company’s current carbon footprint that may be uneconomic to abate. By encouraging companies to assess their projected abatement capacity and report on the portion of their carbon footprint that is currently uneconomic to abate, we aim to generate new data for analysis—improving the assessment of economic impact of current GHG reduction targets—while highlighting areas of market opportunity for new abatement technologies or processes.

**Water stress**: Water is no longer an operational issue for some companies but rather a strategic one, especially for particularly water-intensive sectors like manufacturing, semiconductors, mining, agriculture, and pharmaceuticals. The United Nations (UN) Resource Panel estimates water demand will exceed supply by 40% in 2030 while McKinsey predicts a 60% gap between supply and demand for water in the next seven years. In a period of increasing water scarcity and growing global demand, water can be both an opportunity and a risk. Our engagement aims to prioritize those companies deemed most at risk by our proprietary analysis and engage to encourage actions that will improve water efficiency in operations while investing in water innovation and water-related research and development (R&D) to mitigate water-related risks to the business.

**Pay equity**: Growing proportions of intangibles are linked to human capital in the form of employee labor and talent. This makes attracting and retaining key talent critical for business success, especially for companies operating in regions that are demographically challenged. By focusing on pay equity, we aim to improve employee engagement, retention (via lower voluntary turnover) and alignment with shareholders to drive performance while mitigating reputational and legal risks related to pay inequity.

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Proxy voting results

Our Proxy Voting Guidelines are intended to help Fidelity’s customers and the companies in which we invest understand how Fidelity votes in support of our customers’ and fund shareholders’ long-term interests. Fidelity generally adheres to these guidelines in voting proxies and our Stewardship Principles serve as the foundation for these guidelines. Our evaluation of proxies reflects information from many sources, including management or shareholders of a company presenting a proposal, our own proprietary research and perspectives, and custom research produced by third parties. Fidelity maintains the flexibility to cast individual proxies based on our assessment of each situation.

Proxy voting: By the numbers

<table>
<thead>
<tr>
<th>~52,000</th>
<th>~4,800</th>
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<tbody>
<tr>
<td>Votes cast by Fidelity, in-line with the prior year’s volumes</td>
<td>Company meetings voted</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>94%</th>
<th>91%</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S./Canada votes cast in support of Management, vs. 96% in 2022</td>
<td>International votes cast in support of Management, vs. 90% in 2022</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>17%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fidelity support for shareholder proposals submitted, vs. 23% in 2022</td>
</tr>
</tbody>
</table>

Source: Fidelity Investments, as of June 30, 2023.
Fidelity’s approach to proxy voting is consistent with our approach to investment decisions: We support proxy proposals that we believe are reasonably likely to enhance the profitability of the company or mitigate undue risk and maximize long-term shareholder value. As part of our efforts to maximize long-term shareholder value, we incorporate consideration of human and natural capital issues into our company evaluation if we believe our research has demonstrated an issue is financially material to that company and the investing funds’ investment objectives and strategies.

We have seen continued growth in the volume of shareholder proposals submitted in recent years. To engage and vote more effectively on the growing number of submitted proposals on these topics, we developed a four-point decision-making framework used by our sector partner teams in their evaluation process. In general, Fidelity will more likely support proposals that are:

- **Financially material**: Address a topic that our research has identified as financially material;
- **Disclosure oriented**: Provide disclosure of new or additional information to investors, improving transparency;
- **Decision valuable**: Provide value to the business or investors by improving the landscape of investment-decision relevant information or contributing to our understanding of a company’s processes and governance of the topic in question;
- **Feasible for the issuer**: Are realistic or practical for the company to comply with.

Our support for shareholder proposals on natural and human capital related topics declined with a broader decline in average support for proposals in the period. In our case, our lack of support was often driven by a perceived lack of information value or lack of practicality for the issuer in implementing the proposals.\(^6\)

<table>
<thead>
<tr>
<th>Shareholder proposals on natural and human capital topics that failed to earn Fidelity’s support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not financially material</td>
</tr>
<tr>
<td>Not disclosure oriented</td>
</tr>
<tr>
<td>Not decision valuable for investment purposes</td>
</tr>
<tr>
<td>Not feasible for the issuer</td>
</tr>
</tbody>
</table>

\(^6\) Voting data represents shareholder proposals evaluated at U.S and Canadian companies for the proxy year ended June 30, 2023. Numbers do not sum to 100% as many proposals fail multiple pillars of the evaluation framework.
Proxy case studies

Our Investment Proxy Research team collaborates with investment professionals to ensure the issuers in our portfolios understand Fidelity’s voting rationale via engagement and two-way dialogue.
PROXY CASE STUDY

Constellation Brands

Material Factor | Corporate Governance
--- | ---
Resolution(s) | November 2022: Amend the charter  
July 2023: Elect directors
Context | In the fall of 2022 Constellation Brands, a North American beverage company, held a special meeting of shareholders proposing amendments to the company charter to reclassify shares (moving toward a one-share-one vote structure). While supportive of single class share structures, our proprietary analysis suggested the proposed buyout price for the retiring Class B shares held by the controlling family was excessive. We engaged with the company to express our disagreement with the structure of the deal and noted our intention to vote against the reclassification. The charter amendment passed, and the company completed the reclassification. We then engaged again in the spring of 2023 with multiple board members to share our expectations for board composition.
Outcomes or Progress | Fidelity generally will support proposals to recapitalize multi-class share structures into structures that provide equal voting rights for all shareholders. However, from a governance perspective, we felt the board should seek better governance policies at a lower cost to shareholders. While the newly restructured board met our criteria for board composition, in the summer of 2023, we voted against the reelection of the formerly controlling family members on the board and against members of the reclassification committee to hold them accountable for their support of the excessive buyout price of the Class B shares and poor structuring of the reclassification in our view.
PROXY CASE STUDY

Hamakyorex Co. Ltd.

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<th>Material Factor</th>
<th>Corporate Governance</th>
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<td>Resolution(s)</td>
<td>2021: Elect Directors/Vote against Board Chair</td>
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<td>2022: Elect Directors/Vote against Board Chair</td>
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<td></td>
<td>2023: Elect Directors/Vote for all directors</td>
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Context

Hamakyorex is a Japanese company focused on third-party logistics (3PL), order fulfillment, and trucking. Fidelity has been among the top holders of the company for the past 10 years. Since 2019, our investment proxy research team has held regular engagements with the company aimed at improving corporate governance oversight via improvements to board composition. In 2021, Fidelity introduced new board evaluation guidelines aimed at enhancing firm performance and building business resiliency. We engaged with the company to explain the new guidelines and encourage improvement.

In our initial engagement we highlighted a lack of sufficient independence on the board of directors, raising concerns about subordination of outside shareholder interests as well as lack of gender diversity, leaving the firm without important objective perspectives at the board level. Hamakyorex's leadership team was receptive to shareholder feedback and constructive throughout our dialogue. Since the initial engagement, regulators in Japan have taken steps to enhance the corporate governance of Japanese-listed companies by encouraging greater board independence and gender diversity.

Outcomes or Progress

Following our engagement, the company replaced a retiring male director with an independent female director, adding important perspective to the board, although still falling short of expectations for board composition. We have met annually since then and, as part of those engagements, continue to encourage additional progress to drive improved performance and oversight. In the spring of 2023, Hamakyorex presented a robust plan for addressing the director pipeline and recruitment challenges, including a pathway for both internal candidate development as well as external independent candidate recruitment. As a result of the strong attention the board is paying to this topic, and an indication of our support for the strategy put forward, we used flexibility in applying our guidelines and made an exception, supporting the re-election of all directors in 2023.
PROXY ISSUE SPOTLIGHT: ANTI-TAKEOVER PROVISIONS AND BYLAW AMENDMENTS

ArcBest Corp., LXP Industrial Trust, Masimo Corp., and Paycom Software Inc.

Following the Securities and Exchange Commission’s 2021 adoption of the Universal Proxy Rules, many companies revised their bylaws to reflect the new proxy access requirements. As a result, we saw a notable strengthening in corporate governance provisions in anticipation of a potential increase in shareholder activism. In the fall of 2022, several companies in our portfolios adopted revisions to their bylaws that effectively created hurdles to submitting director nominations and shareholder proposals that appeared highly restrictive. Our anti-takeover proxy voting policy explains that we will generally vote against incumbent directors if the company adopts a provision that eliminates or limits shareholder rights without a shareholder vote.

Problematic bylaw features flagged by our analysis this year included:

1. Expansion of disclosure requirements relating to parties other than the nominating shareholder

   Depending on the proponent and who their affiliated parties may include, we view these requirements as having the potential to pose insurmountable barriers that may prevent shareholders from submitting their proposal or director nomination.

2. Increased disclosure requirements relating to past proposals and nominations at other issuers

   We see no value for shareholders in this additional information and viewed the requirement as creating an unnecessary barrier for shareholders wishing to submit nominations.

3. Increased disclosure requirements relating to future proposals and nominations at other issuers

   We see this additional information as offering little investment value or useful information relevant to making a vote decision on a director nominee and find that prematurely revealing a future nominee or proposal may be unfeasible.

Engagement approach and outcome

We view intentional engagement and proxy voting practices that assist in driving strong alignment between management and shareholder interests as contributing to value creation over time. In practice, this means we often proactively reach out to companies in our portfolios to engage on topics of interest, or accept engagement offers directly from companies. ArcBest Corp., LXP Industrial Trust, Masimo Corp., and Paycom Software were among those we engaged with on this topic in the most recent proxy year. In our conversations with management and board directors we shared our perspective that the restrictive advanced notice requirements which had been adopted or proposed infringed upon shareholder rights and discussed the potential voting implications for director nominations. In all cases, the companies eventually withdrew, amended, or submitted the provisions to a shareholder vote, preserving shareholder rights.
Investment ecosystem

Supporting the investment ecosystem

FCLTGlobal Working Group on Long-Term Compensation
- As a member of FCLTGlobal, Fidelity participates in working groups and research projects that bring practical solutions to long-term investing. We recently joined FCLTGlobal's working group on executive compensation and say-on-pay voting to discuss ways to make proxy voting and remuneration design more focused on long-term objectives.
- In September 2023, FCLTGlobal published their research findings on executive remuneration. “The CEO Shareholder: Straightforward Rewards for Long-term Performance” lays out practical tools to aid corporate boards in designing executive remuneration, calibrating long-term equity awards, and effectively communicating remuneration policies to shareholders.

ISSB Investor Advisory Group
- Fidelity is a member of the ISSB Investor Advisory Group (IIAG), promoting convergence and standardized methodology for disclosure on financially material sustainability topics.
- We reviewed and provided in-depth comments on the two initial disclosure frameworks that were published in spring 2023 and continue to work toward promoting standardized sustainability disclosure for investors.

United Nations Principles for Responsible Investment (PRI) Stewardship Resourcing Technical Group
- Fidelity is a member of the working group assessing and measuring global resources dedicated to stewardship initiatives and developing recommendations for measurement.
- The group will seek to devise a methodological approach to estimate and recommend an appropriate level of resources that different investors may expect to dedicate to both direct stewardship and policy engagement activities, subject to their constraints and objectives.

1 FCLTGlobal's mission is to focus capital on the long term to support a sustainable and prosperous economy. We are a non-profit organization whose members are leading companies and investors worldwide that develops actionable research and tools to drive long-term value creation for savers and communities.
2 The IFRS Foundation is a not-for-profit, public interest organization established to develop high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards. The standards are developed by two standard-setting boards, the International Accounting Standards Board (IASB) and International Sustainability Standards Board (ISSB). https://www.ifrs.org
3 PRI. https://www.unpri.org
Policy Engagement

Global engagement with regulators

- **Taiwan**: The government recently adopted amendments (with Fidelity’s support) to lower the threshold to 5% holding (from prior 10% level) for the reporting and disclosure of substantial shareholding in a company, improving transparency.

- **Singapore**: Singapore Exchange introduced a phased approach to mandatory climate reporting and called for recommendations through consultation process. Fidelity participated in the process and provided comments around the disclosure of climate-related information, assurance of sustainability reports and training for directors on sustainability. Two of Fidelity’s recommendations are now reflected in the final mandatory disclosure requirements for issuers:
  - Prioritization of issuers for climate-related disclosure based on industry classification, irrespective of company size or market capitalization.
  - Board diversity requirements based on gender, skills, and experience.

**Policy Spotlight: eDelivery of financial services documents**

Fidelity is a proud champion and leader of digital-first tools for customers that reduce reliance on paper and postage and increase the security and accessibility of investment information. We are a leading advocate for modernizing rules to make electronic delivery the default for our customers to receive documents, while preserving investors’ choice for paper. In 2022, we strongly supported the introduction of the bipartisan “Improving Disclosure for Investors Act of 2022” in the U.S. House of Representatives to direct the U.S. Securities and Exchange Commission (SEC) to change the default means of investor communication from paper to digital. We continue to advocate for Congress and the SEC to modernize regulations to better reflect our customers’ preferences and reduce waste.
Looking ahead

In the months ahead, we remain committed to growing our stewardship and sustainable investment research expertise. The team is hard at work examining the most relevant sustainable themes impacting sectors and regions across the world. This work will take the form of collaboration with our fundamental investment team, hosting expert calls, meeting with leading companies in these fields, and analyzing vast amounts of data with the help of our quantitative team. Specifically, we plan to:

- Expand our coverage of corporate issuers to include smaller capitalization emerging markets issuers, as well as additional issuers of corporate bonds.
- Use large language models to assist portfolio managers and analysts in more efficiently reviewing and incorporating unstructured data into their research.
- Develop deep thematic research on topics including responsible artificial intelligence (AI), biodiversity, the intersection of climate and health, and grid resilience, among other focus areas.
- Use innovative geospatial data to assess issuers’ exposure to water stress by analyzing their geographic footprint and corporate efforts to appropriately manage water use.
- Leverage patent data to identify sustainable innovators that are leading the way in developing technologies that could be critical to the economy of the future.
Index definitions

MSCI All Country World Index (ACWI) is a market capitalization-weighted index designed to measure investable equity market performance for global investors of developed and emerging markets.

S&P 500® is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. S&P 500 is a registered service mark of The McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates.

MSCI EAFE Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of developed markets, excluding the U.S. & Canada. Index returns are adjusted for tax withholding rates applicable to U.S. based mutual funds organized as Massachusetts business trusts (NR).

Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or a solicitation to buy or sell any securities. Views expressed are as of December 2023, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the authors and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.