

# FIDELITY SUSTAINABLE ASIA EQUITY FUND - STOCK SELECTION PROCESS

## **Important Information:**

The value of investments can go down as well as up so you may get back less than you invest.

The Portfolio Manager's focus on securities of companies which maintain strong environmental, social and governance ("ESG") credentials may result in a return that could, at times, compare less favourably to similar products without such focus. No representation nor warranty is made with respect to the fairness, accuracy or completeness of such credentials. The status of a security's ESG credentials can change over time.

## **Our aims**

The Fund will seek to achieve long-term capital growth via investment in Asian companies, excluding Japan with sustainable characteristics. It will integrate return, risk and sustainability criteria, while focusing on engagement with companies to improve sustainable outcomes.

The Fund will adopt a strategy under which it will hold minimum exposure of 70% in companies deemed to have sustainable characteristics.

Although sustainability factors are a key feature of the investment process, the Portfolio Management Team adopt a bottom-up stock selection investment approach, making use of Fidelity's extensive global research expertise to identify quality growth opportunities that we believe are mispriced or unrecognised by the market.

## **Stock selection process**

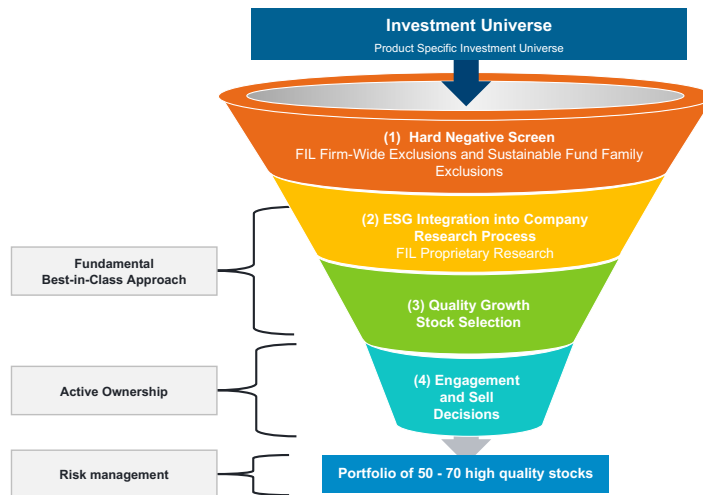
The investment discipline is designed to create a structured and repeatable process aiming to identify and invest in 50-70 companies.

Position sizes are determined based on the team's conviction, as well as the stocks' correlation and liquidity. Active weights are generally +/-10% versus the fund's comparative market index.

## **Our investment approach**

The underlying fundamental investment approach will look to identify high quality growth names in Asia, with sustainable characteristics and an emphasis on corporate engagement. A summary of our investment approach is set out on the next page.

FOCUS ON SUSTAINABLE POSITIVE RETURNS THROUGH CONSTRUCTIVE ENGAGEMENT



Source: Fidelity International, August 2023

Our proprietary sustainability ratings

Fidelity Sustainability Ratings is a proprietary rating system developed by Fidelity’s research analysts to assess individual issuers\*. Those ratings score issuers on an A-E scale on sector-specific factors and a trajectory forecast based on an assessment of expected change of an issuer’s sustainability characteristics over time. Such ratings are based on fundamental bottom-up research and materiality assessment using criteria specific to the industry of each issuer relevant to material ESG issues (the ‘Fidelity Sustainability Rating’).

While Fidelity has its own proprietary ESG ratings, we also look at MSCI ESG Ratings to assess the sustainability credentials of issuers in order to get an external and holistic view. We also understand that these ratings are widely available to end investors thus offering a credible third-party overview of our holdings.

\*The Fidelity Sustainability Ratings were launched in June 2019. As at 30 September 2022, they cover a universe of c. 4,200 issuers in equity and fixed income. Fidelity has a five scale rating of A (best) to E (worst).

Fidelity’s sustainable characteristics criteria

Sustainable characteristics are defined as issuers rated by MSCI, or in the absence of a rating from MSCI, by the Fidelity Sustainability Rating, as follows:

- Developed market issuers with an ESG rating from MSCI of AAA - BBB
- Non-developed market issuers with an ESG rating from MSCI of AAA - BB
- Issuers with no ESG rating assigned by MSCI will be assessed by Fidelity Sustainability Ratings and are required to have an ESG rating of A - C
- Global market classifications are as set out in MSCI’s annual market classification review

## Exclusion Framework

The fund will focus on investments with sustainable characteristics. As a result, it will adhere to a principles-based framework which sets out the basis upon which certain issuers may be excluded from the Asia ex-Japan investment universe. The framework incorporates both norms-based screening and negative screening of certain sectors, companies or practices based on specific ESG criteria.

- **Firm-wide exclusion** of issuers with involvement in the following categories of controversial weapons the use of which is prohibited by international treaties or conventions:
  - Cluster munitions
  - Landmines
  - Biological weapons
  - Chemical weapons
  - Blinding laser weapons
  - Incendiary weapons
  - Non-detectable fragments
  - Nuclear weapons for non-signatories of the Treaty on the Non-Proliferation of Nuclear Weapons, specifically:
    - Manufacturers of nuclear warheads and/or whole nuclear missiles
    - Manufacturers of components developed and/or significantly modified for exclusive use in nuclear weapons
    - Derives more than 5% revenue from nuclear weapons
  - Includes issuers that produce exclusive delivery platforms/components only
  
- **Fidelity Sustainable Family exclusions:** In addition to the above exclusions, Fidelity's Sustainable Family of Funds also excludes issuers involved in controversial weapons, (broader list of nuclear weapons manufacturers and depleted uranium), military weapons, semi-automatic weapons, tobacco, thermal coal\*, arctic mining, oil sands and companies violating international norms including those set out by the Ten Principles of the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights, Responsible Business Conduct and International Labour Organization (ILO) Conventions.

The below activities are excluded at the indicated revenue threshold.

Category	Description
Controversial weapons	Any controversial weapons - sub-categories include biological, chemical, incendiary weapons, depleted uranium, non-detectable fragment, blinding lasers, cluster munitions, landmines and nuclear weapons.
Conventional weapons	All issuers that derive more than 5% revenue from the production or manufacturing of conventional weapons (excluding semi-automatic weapons).
Semi-automatic weapons	All issuers that derive more than 0% revenue from the production of semi-automatic weapons and Retailers with more than 5% of their revenues from semi-automatic firearms sales.
Tobacco	All producers/manufacturers of tobacco and issuers that derive more than 5% of their revenues from tobacco retail, distribution, supply or licensing.
Thermal coal	All issuers that derive more than 5% revenue from the mining of thermal coal and its sales to third parties or thermal coal-based power generation. Some exceptions for companies transitioning, as determined by Fidelity.*
Arctic Oil & Gas	All issuers that derive more than 5% revenue from Arctic Oil & Gas activities.
Oil Sands	All issuers that derive more than 5% revenue from oil sands activities.

## Fund-specific exclusions

Category	Description
Crude palm oil	Revenue threshold applied is 10%.
Conventional and non-conventional oil and gas extractors	Revenue threshold applied is 5%.
Oil and gas power utilities*	Revenue threshold applied for is 30%.

## Reporting

Reporting on whether the Fund is meeting its ESG commitments will be found in the annual and semi annual reports. The MSCI ESG breakdown of the Fund will be available via the Fund factsheet.

\* Exceptions to these exclusions can apply to issuers that, in our assessment, have a credible strategy aligned with the Paris Agreement. Where the issuer's revenue share from renewable energy exceeds revenue share from thermal coal activities. Where the issuer has made an effective commitment to a Paris Agreement aligned objective based on approved Science Based Targets or alignment with a Transition Pathway Initiative scenario or a reasonably equivalent public commitment.

### DISCLAIMERS

This information must not be reproduced or circulated without prior permission. Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client.

Fidelity International refers to the group of companies which form the global investment management organisation that provides information on products and services in designated jurisdictions outside of North America. This communication is not directed at, and must not be acted upon by, persons inside the United States and is otherwise only directed at persons residing in jurisdictions where the relevant funds are authorised for distribution or where no such authorisation is required.

Unless otherwise stated all products and services are provided by Fidelity International, and all views expressed are those of Fidelity International. Fidelity, Fidelity International, the Fidelity International logo and F symbol are registered trademarks of FIL Limited.

Certain Information ©2023 MSCI ESG Research LLC. Reproduced by permission; no further distribution. Although Fidelity International's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Research professionals include both analysts and associates.

The Key Investor Information Document (KIID) is available in English and can be obtained from our website at [www.fidelityinternational.com](http://www.fidelityinternational.com). The Prospectus may also be obtained from Fidelity. The Key Investor Information Document (KIID) for Fidelity and non-Fidelity funds is available in English and can be obtained from our website at [www.fidelityinternational.com](http://www.fidelityinternational.com). The Prospectus for Fidelity funds may also be obtained from Fidelity. For non-Fidelity funds, the KIID and the Prospectus are also available from the fund provider directly.

The Authorised Corporate Director of Fidelity Investment Funds, Fidelity Investment Funds 2, Fidelity Investment Funds III and Fidelity Investment Funds IV OEIC is FIL Investment Services (UK) Limited. Issued by FIL Investment Services (UK) Limited, a firm authorised and regulated by the Financial Conduct Authority.



UKM1123/65779-6/SSO/0824