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# Exclusion Framework

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# Introduction

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At Fidelity International ('Fidelity'), we acknowledge certain types of economic activities carried out by issuers in our investment universe give rise to unacceptable or unmanageable environmental or social risks for our clients.

Moreover, these risks may be difficult or impossible for issuers to mitigate. As such, Fidelity considers the exclusion of issuers from our investment universe based on specific ESG criteria.

## Overview

The Fidelity Exclusion Framework covers three levels and will be explained in more detail throughout this document.

- **ESG Unconstrained** includes controversial weapons exclusions;
- **ESG Tilt** includes ESG Unconstrained exclusions and further exclusions such as tobacco production, thermal coal, norms-based exclusions as well as exclusions relating to sovereign issuers; and
- **ESG Target** includes ESG Tilt exclusions and further exclusions such as additional controversial weapons, conventional weapons, semi-automatic weapons, tobacco, thermal coal, Arctic oil and gas, oil sands, and additional exclusions relating to sovereign issuers.

Further exclusions beyond those described in this document may also apply. This may be due to product specific requirements, client specific requirements, local regulatory requirements, or fund labels. The resulting exclusions may overlap. Please see the relevant investment management agreements, offering documents, and the [relevant website](#) for the exclusions applied to a specific product.

## Products in scope of this Framework

The following table outlines which of the investment solutions that Fidelity offers are in or out of scope of this framework.

In Scope	Out of Scope
<p>This document applies to:</p> <ul style="list-style-type: none"> <li>All Fidelity actively or systematically managed products and strategies in all asset classes unless specified</li> <li>Segregated mandates (unless specified or agreed otherwise with the client)</li> </ul>	<p>This document does not apply to:</p> <ul style="list-style-type: none"> <li>Index replication products</li> <li>Products and segregated mandates managed by Fidelity Canada</li> <li>Products and segregated mandates sub-advised to another entity including Fidelity Investments / Fidelity Institutional Asset Management / Geode</li> <li>Products that we do not manage but which may be available on one of our investment platforms like FundsNetwork</li> </ul>

For out-of-scope products, please refer to the relevant asset manager and/or index methodology, as well as the relevant fund documentation for full details on the exclusion approach.

## Assets in scope of this Framework

The below table outlines which investments are and are not in scope of this framework.

In Scope	Out of Scope
<p><b>This document applies to:</b></p> <ul style="list-style-type: none"> <li>Direct investment in instruments from excluded issuers</li> <li>Short positions in instruments from excluded issuers</li> <li>Investments in derivative instruments (long and short) used to gain exposure to an excluded issuer through Equity Linked Notes, Contracts for Difference, Non-fixed income Total Return Swaps, Credit Default Swaps</li> <li>Real estate assets</li> </ul>	<p><b>This document does not apply to:</b></p> <ul style="list-style-type: none"> <li>Investments in securities which may create exposure to multiple underlying issuers such as collective investment schemes or index positions</li> <li>Other derivative instruments</li> <li>Investments in third-party managed funds</li> <li>Investments in selected green and sustainability bonds from issuers subject to our thermal coal, oil sands, and Arctic oil and gas exclusions (for example, use of proceeds bonds focused on renewable energy will be eligible for investment, subject to additional due diligence)</li> </ul>

## Ongoing Implementation

The Sustainable Investing Team oversees the implementation of the exclusions with support from the Exclusion Advisory Group (EAG) and ultimate oversight from the Sustainable Investing Operating Committee (SIOC).

The Sustainable Investing Team is responsible for generating Fidelity's exclusion lists for each of the three levels of exclusions (as outlined above) on a quarterly basis. This process is carried out in consultation with the Research Team to validate or assess the relevant issuers in greater detail in order to ensure that the most current perspective is reflected. These exclusion lists are presented to the EAG for discussion and review. The exclusion lists are then finalised and submitted to the SIOC for approval. Once the exclusion lists have been approved, the Portfolio Control and Monitoring Team is notified and the lists are implemented via the trading system or other internal processes.

When investing in securitised investments, the relevant issuers will be screened against the Exclusion Framework. However, as the underlying instruments are unable to be systematically screened, compliance cannot be guaranteed.

For real estate products, Fidelity's real estate business will mainly review the involvement of real estate assets in excluded activities.

## Divestments

If an issuer is added to the exclusion lists, a product in scope would generally divest the position in full as soon as practicable and in any event within three months. There may be exceptional circumstances when a longer divestment timetable for large and/or illiquid positions would be in the best interests of clients. This can be approved by the relevant Chief Investment Officer on the advice of Trading / Capital Markets / Portfolio Control and Monitoring / Portfolio Construction Advisory and Research / Investment Compliance / Investment Risk. SIOC will be notified of the longer divestment timeline.

Some products which invest in more illiquid asset classes such as real estate may not follow this approach due to liquidity and fiduciary duty responsibilities. Alternatively, these products may aim to engage with tenants in the first instance and may subsequently not renew leases, restrict further investment, or divest on a longer timeline which can account for the practicalities of illiquidity.

## Data Sources and Limitations

The data for the determination of exclusions is generally gathered from reputable third-party research providers, individual issuers or investee companies. Fidelity retains full discretion over the implementation of exclusion criteria and reserves the right to deviate from third-party information on a case-by-case basis in instances where it is deemed incorrect or incomplete. Given the use of third-party data, changes or updates to the available information on any given issuer may not result in an immediate change to the impacted issuer's status with respect to excluded categories. While external data providers may estimate data, Fidelity does not generally do so although we may in certain circumstances.

Limitations in data availability may constrain Fidelity's ability to generate insights into an individual issuer or asset's exposure related to the activities stated, and the framework is implemented on a best-effort basis. Data gaps may result in a company in breach of the framework being included in

our portfolios. Fidelity will continue to evaluate alternative data providers and aim to introduce additional proprietary analysis to help bridge data gaps and to provide alternative insight into an issuer's exposure to the activities stated.

## **Sanctions**

Fidelity has policies, procedures, and controls in place that comply with all applicable sanctions laws and regulations as defined below.

As a principle, Fidelity will not invest in issuers and assets from countries that are under broad sanctions or directly designated from recognised international organisations and governments - specifically, the United Nations (UN), the United Kingdom (UK), the United States (U.S.), the European Union (EU) and other applicable local regimes as relevant to our subsidiaries and their branches in the countries in which they operate. This includes sanctions issued by authorities in: Australia, Canada, Hong Kong, Japan, Singapore, and Switzerland. The process for sanctions exclusions generally covers all products and asset classes.

Nevertheless, international sanctions regimes are complex, and a case-by-case analysis is performed before vetoing an investment opportunity which may be linked to a sanctions related restriction. Fidelity will also comply with applicable laws related to financial crime and may exclude some issuers if required.

## Exclusion Criteria

At Fidelity, there are three types of exclusions: **activity-based exclusions**, **norms-based exclusions**, and **sovereign exclusions**. The below table summarises the thresholds and scope of these exclusions across three levels.

If an issuer has confirmed that they are planning to divest a business unit or discontinue any business activities which fall within the exclusion criteria, we will not include it on the exclusion list, but will continue to monitor the company to ensure that they follow through on the divestment.

Exclusion Type	Exclusion Category	Description	Measure	ESG Unconstrained <sup>1</sup>	ESG Tilt	ESG Target
				Threshold		
Activity-based	Controversial Weapons	General	Involvement in production of controversial weapons, its intended use components and exclusive delivery platforms as guided by international treaties	Any	Any	Any <sup>2</sup>
		Nuclear Weapons	Involvement in production of nuclear weapons, its intended use components and exclusive delivery platforms	Any <sup>3</sup>	Any <sup>3</sup>	Any
			Revenues <sup>6</sup> from nuclear weapons related activities	≥5% <sup>3</sup>	≥5% <sup>3</sup>	≥5% <sup>3</sup>
			Involvement in nuclear weapons support services	-	-	Any
	Conventional Weapons	Revenues from production of weapons or components for such products	-	-	≥5%	
	Semi-automatic Weapons	Involvement in production	-	-	Any	
		Revenues from distribution	-	-	≥5%	
	Tobacco	Involvement in production	-	Any	Any	
		Revenues from related business activities	-	-	≥5%	
	Thermal Coal	Revenues from extraction/mining	-	≥5% <sup>4</sup>	≥5% <sup>5</sup>	
		Revenues from power generation	-	≥20% <sup>4</sup>	≥5% <sup>5</sup>	
	Arctic Oil & Gas	Revenues from extraction	-	-	≥5%	
	Oil Sands	Revenues from extraction	-	-	≥5%	
Norms-based		Issuers which Fidelity assesses as failing to behave in a way which meets their fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption as aligned with international norms	-	Any	Any	
Sovereign		Financial Action Task Force (FATF)	-	Black List	Black List	
		Additional Sovereign indicators and internal analysis	-	-	Fail test	

<sup>1</sup> ESG Unconstrained exclusions are typically applied firm-wide

<sup>2</sup> ESG Target definition includes depleted uranium

<sup>3</sup> Applies only to issuers in countries which are non-signatories of Treaty on the Non-Proliferation of Nuclear Weapons

<sup>4</sup> Subject to transition criteria related to future expansion commitments

<sup>5</sup> Subject to additional transition criteria related to transition plans

<sup>6</sup> References to "revenue" in the above table and the accompanying explanations below refer to the percentage of an issuer's reported or estimated revenue

# Exclusion Types

## Activity-Based

### Controversial Weapons

Controversial weapons are those that are considered to be indiscriminate and can have disproportional impact. Our exclusions reference third-party research on individual issuers or investee companies and international treaties and conventions which have an aim of prohibiting or limiting the use of controversial weapons such as the Convention on Cluster Munitions (the "Oslo Convention"), the Biological Weapons Convention, the Chemical Weapons Convention, the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction (the "Ottawa Treaty"), the Treaty on the Non-Proliferation of Nuclear Weapons, guidance from the UN, the World Bank and other global authorities which uphold ESG principles. Controversial weapons are excluded at two levels within Fidelity's Exclusion Framework:

ESG Unconstrained and ESG Tilt exclusions	ESG Target exclusions
<p>ESG Unconstrained exclusions are applied firm-wide to issuers that are producers of the weapons, producers of intended-use components, and producers of exclusive delivery platforms. Issuers that have ownership ties<sup>1</sup> to the above activities will be excluded. This covers the following:</p> <ul style="list-style-type: none"> <li>▪ Cluster munitions</li> <li>▪ Landmines</li> <li>▪ Biological weapons</li> <li>▪ Chemical weapons</li> <li>▪ Blinding laser weapons</li> <li>▪ Incendiary weapons</li> <li>▪ Non-detectable fragments</li> </ul>	<p>ESG Target exclusions are applied to issuers that are producers of the weapons, producers of intended-use components, and producers of exclusive delivery platforms. Issuers that have ownership ties<sup>1</sup> to the above activities will be excluded. This covers the following:</p> <ul style="list-style-type: none"> <li>▪ Cluster munitions</li> <li>▪ Landmines</li> <li>▪ Biological weapons</li> <li>▪ Chemical weapons</li> <li>▪ Blinding laser weapons</li> <li>▪ Incendiary weapons</li> <li>▪ Non-detectable fragments</li> <li>▪ Depleted uranium</li> </ul>
<p>In addition, issuers which breach any of the following criteria and are from countries which are non-signatories of the Treaty on the Non-Proliferation of Nuclear Weapons will be excluded:</p> <ul style="list-style-type: none"> <li>▪ Involvement in production of nuclear warheads and/or whole nuclear missiles</li> <li>▪ Involvement in production of components developed and/or significantly modified for exclusive use in nuclear weapons</li> <li>▪ Involvement in production of exclusive delivery platforms for nuclear weapons</li> <li>▪ Issuers with ≥5% revenues from nuclear weapons related activities<sup>2</sup></li> </ul>	<p>In addition, issuers which breach any of the following criteria will be excluded:</p> <ul style="list-style-type: none"> <li>▪ Involvement in production of nuclear warheads and/or whole nuclear missiles</li> <li>▪ Involvement in production of components developed and/or significantly modified for exclusive use in nuclear weapons</li> <li>▪ Involvement in production of exclusive delivery platforms for nuclear weapons</li> <li>▪ Issuers with ≥5% revenues from nuclear weapons related activities (applies only to issuers in countries which are non-signatories of the Treaty on the Non-Proliferation of Nuclear Weapons)</li> </ul>

<sup>1</sup> "Ownership ties" refer to ownership of or by an excluded issuer. "Ownership by" indicates whether the issuer is a direct majority-owned (at least 50%) subsidiary of an excluded issuer. "Ownership of" a significant stake in an issuer involved in the business activities means a stake of ≥50% for financial institutions and fund providers / 20 - 49.99% for non-financial institutions or non-fund providers.

<sup>2</sup> Related activities include nuclear weapons, intended and dual-use components for such products, delivery platforms capable of deploying nuclear weapons, essential components for such delivery platforms, and support services for such products.

## Conventional Weapons

Conventional weapons are defined as “weapons of warfare which are not nuclear, chemical or biological in nature”. **ESG Target exclusions** exclude issuers that generate  $\geq 5\%$  revenues from the production of conventional weapons or components for such products.

## Semi-automatic Weapons

Semi-automatic weapons are self-loading firearms made for civilians. **ESG Target exclusions** exclude issuers that are producers of semi-automatic weapons for civilians and, in addition, all issuers that generate  $\geq 5\%$  revenues from the distribution of semi-automatic weapons to civilians.

## Tobacco

Tobacco includes tobacco-related products such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This definition also covers issuers that grow or process raw tobacco leaves. **ESG Tilt exclusions** exclude issuers involved in the production of tobacco-related products. **ESG Target exclusions** exclude issuers involved in the production of tobacco-related products and exclude issuers that generate  $\geq 5\%$  revenues from all tobacco-related product related activities (production, licencing, distribution, retailing, and supplying).

## Thermal Coal

Thermal coal is a type of coal primarily used to generate energy and heating.

**ESG Tilt exclusions** will exclude issuers at the following revenue thresholds subject to transition criteria:

- Any issuer with  $\geq 5\%$  revenues from thermal coal extraction/mining, **or**
- Any issuer with  $\geq 20\%$  revenues from thermal coal power generation

Issuers may be added to the **ESG Tilt transition** list and remain eligible for investment, provided they meet the below transition criteria:

- Are not planning to develop new coal assets **and**
- Demonstrate a downward trend in thermal coal output and, for thermal coal power, demonstrate a plan to transition towards low carbon power generation

**ESG Target exclusions** will exclude issuers at the following revenue thresholds subject to transition criteria:

- Any issuer with  $\geq 5\%$  revenues from thermal coal extraction/mining, **or**
- Any issuer with  $\geq 5\%$  revenues from thermal coal power generation

Issuers may be added to the **ESG Target transition list** and remain eligible for investment provided they meet the ESG Tilt transition criteria as well as the additional transition criteria below:

- Less than 30% revenues from thermal coal; **and** one of the following:
- Committed to phasing out thermal coal activities in line with the International Energy Agency (IEA) Net Zero 2050 scenario (2030 for Organisation for Economic Co-operation and Development (OECD) countries, 2040 for non-OECD countries); **or**
- 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

Any issuer on the thermal coal transition list is subject to an annual review process to assess status and may be subject to engagement plan depending on materiality to Fidelity.

### **Arctic Oil & Gas**

Arctic Oil & Gas is oil and gas extracted from within the Arctic Circle. **ESG Target exclusions** exclude issuers that generate  $\geq 5\%$  revenues from the extraction of Arctic oil and gas (onshore and offshore).

### **Oil Sands**

Oil sands, also known as tar sands, is a form of petroleum. **ESG Target exclusions** exclude issuers that generate  $\geq 5\%$  revenues from the extraction of oil sands.

## **Norms-based Exclusions**

Norms-based exclusions apply to issuers which, according to Fidelity's assessment, fail to behave in line with international norms. These international norms include fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption as set out by the Ten Principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, the UN Guiding Principles on Business and Human Rights, and International Labour Organization (ILO) Conventions.

## **Sovereign Exclusions**

Sovereign issuers are excluded based on our internal sovereign exclusion assessment which concentrates on three principles relating to governance, respect for human rights, and foreign policy. As part of this assessment, Fidelity uses internationally recognised indicators to support this.

- **ESG Tilt exclusions** exclude sovereign issuers on the Black List produced by the Financial Action Task Force (FATF).
- **ESG Target exclusions** exclude sovereign issuers on the FATF Black List and those that are identified as failing to meet the three principles based on a proprietary assessment and a review of internationally recognised country indicators such as:
  - The World Bank's Worldwide Governance Indicators (WGI)
  - Countries listed under the UN Security Council Sanctions

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