Fidelity Canada 2022 Climate-Related Financial Disclosure

Contents

Foreword

Every day, countries across the globe are facing extreme and worsening weather events – causing climate worry and severe impacts to populations. Several tipping points have already been triggered, and there are possibly others that we don't know about. Climate change is a complicated global problem, and Fidelity Canada believes that pooling tailored and locally led solutions will put us on a positive path forward.

This is Fidelity Canada's inaugural Taskforce on Climate-Related Financial Disclosure (TCFD) report. This report details our approach and progress towards addressing the recommendations outlined by the Taskforce.

Since the firm's inception in 1987, trust and integrity have been key components in how Fidelity has operated its business in Canada. As we look to further shape our climate journey, we're confident these principles will help us develop an open, honest and credible plan in support of the global climate emergency.

At Fidelity, we believe we have a responsibility to aim to positively influence the environment and society at large. Research is in our DNA, and we believe better research drives long-term performance. It's our competitive advantage, and we want to use this edge to offer up intelligent insights to build climate resilience and seek to deliver strong long-term returns for our clients and stakeholders.

The impacts of a changing climate will continue to be felt in numerous ways and the journey to address this challenge will be long and complex, but we must act urgently. The path to a balanced climate will require ambitious yet realistic solutions. In 2022 we began the process of establishing a thoughtful and rigorous corporate sustainability strategy that prioritizes real-world emissions reduction and long-term sustainable impact. As part of this strategy, we are also committed to continuing to embed environmental, social and governance (ESG) considerations into our business operations and investments to unite our core strategy with sustainability. In the pages to come, you'll find more information about our climate-related efforts in 2022 and future plans.

Climate change is a complex challenge that cannot be solved by one company or sector alone. Fidelity is committed to leveraging our unique business capabilities to play our part in the transition to a low-carbon economy, and being transparent about our efforts along the way.

Brock Dunlop
Vice President, Corporate Sustainability & Corporate Business Initiatives

Executive summary

Climate change presents important risks and opportunities to the financial services industry and our business stakeholders. Fidelity Canada's mission is to build a better future for Canadian investors and help them stay ahead. We recognize this is not possible without the private sector playing its part in addressing the climate crisis. This inaugural report, covering our 2022 efforts, comprises four sections, aligned to the TCFD recommendations. Below, we summarize the key highlights.

TCFD PILLAR	KEY HIGHLIGHTS
Governance Disclose the organization's governance around climate-related risks and opportunities.	• We established formal governance of our corporate and sustainable investing-related activities through the Corporate Sustainability Committee (CSC). The CSC oversees the assessment and management of sustainability-related activities, including climate, with respect to Fidelity Canada as a business. The CSC also provides support, as needed, to sustainable investment activities carried out by Fidelity Investments Canada ULC (FIC).
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning, where such information is material.	• We made progress in considering climate-related risks and opportunities in our corporate processes and planning across our business, with a particular focus on operational greenhouse gas (GHG) emissions control and reduction. This sets the stage for the CSC to establish climate-related goals and targets, strategic initiatives and additional decision-useful metrics to measure the impact of climate-related risks and opportunities on our business in 2023 and beyond. • We continued utilizing proprietary ESG ratings developed by our affiliate, Fidelity International (FIL), which comprise a combination of indicators that address the most material issues sector by sector, and that provide a holistic, forward-looking view of a company's practices. These ratings are integrated into Fidelity's investment research.
Risk management Disclose how the organization identifies, assesses and manages climate-related risks.	• ESG risk, including climate-related risk, is featured as an emerging risk in Fidelity Canada's Strategic Risk Framework. • We established an ESG Risk Working Group to develop second-line risk management coverage specific to ESG-related matters. The Working Group is focused on developing and integrating data, tools and capabilities to support disclosure and risk identification and monitoring for ESG-related risks, including climate-related risks. • The continued explicit integration of sustainability into our investment research enables us to better understand and monitor climate-related risks, informing better investment decisions.
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.	• In accordance with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, we calculated our first comprehensive operational emissions inventory. The insights from our 2019–2022 data will help us to establish climate-related goals and targets, strategic initiatives and additional metrics to measure the impact of climate-related risks and opportunities on our business in 2023 and beyond.

Introduction

We are pleased to share Fidelity Canada's inaugural disclosure in accordance with the TCFD's recommendations. This is an important milestone in our journey toward providing transparency and disclosure to our many stakeholders. As an investor, FIC has advocated for TCFD disclosure to encourage companies to share more information that is useful for our investment decisions.

This inaugural TCFD report reflects our current efforts and business practices on our journey to integrating climate considerations in our business. We recognize the opportunity to continue to refine our disclosures over time, in line with industry developments and regulatory requirements, to reflect our growing climate understanding and improvements in climate data availability and quality.

This TCFD report covers the activity of Fidelity Canada's two legal entities: FIC and Fidelity Clearing Canada ULC (FCC). We are a leading financial services provider, overseeing over $227 billion in assets under management (AUM) and administration (as at December 31, 2022). The scope of this report includes climate practices and activities related to the assets managed by FIC's investment management team; it does not consider the operations and policies of our global network of subadvisors. As we continue to evolve our approach, we will evaluate the extent to which we reference the climate-related policies and practices of our subadvisors.[1]

Fidelity Canada's mission is to build a better future for Canadian investors and help them stay ahead. We offer investors and institutions a range of innovative and trusted investment portfolios and related services to help them reach their financial goals. As a privately owned company, Fidelity commits its people and world-class resources to seeking to do what is right for investors and their long-term financial success. Our FIC clients include individuals, financial advisors, pension plans, endowments, foundations and more. Our FCC team is a leader in trade execution, custody, back-office support and platform solutions, and clients include portfolio managers and financial advisors.

Because Fidelity Canada's clients, employees and other stakeholders trust us to do the right thing and to have a positive influence in the communities where we operate, sustainability has become a growing priority for Fidelity Canada in operating its businesses. We are committed to continually enhancing our sustainability efforts and disclosures to support our desire to build a better financial future for our clients and investors.

1 FIC engages a global network of subadvisors in providing its services and managing its products, including Fidelity Management & Research Company (FMR Co., Inc.), Fidelity Institutional Asset Management (FIAM LLC), Fidelity Management & Research (Canada) ULC (FMR-Canada), Fidelity International (FIL Limited) and Geode Capital Management LLC.

Governance

TCFD recommendation:
Disclose the organization’s governance around climate-related risks and opportunities.

We believe that good governance is a critical foundation of a successful corporate culture that earns trust from and builds value for clients, employees and communities at large. We critically evaluate our governance practices and standards to ensure that we run our operations and make business decisions in a transparent, sound and ethical manner that is in full compliance with laws and regulations in all the jurisdictions in which we operate and meets industry best practices.

As noted, Fidelity Canada comprises two businesses: FIC and FCC. The board of directors of each of FIC and FCC is responsible for providing oversight on the operations of the respective business, including risk management. Fidelity Canada is developing and formalizing a governance framework for the specific oversight of climate-related risks and opportunities.

In 2022, Fidelity Canada established the Corporate Sustainability Committee (CSC), which is chaired by the Vice President, Corporate Sustainability, and reports to the Fidelity Canada Executive team. Members of the CSC include relevant senior leaders from across the organization with functional responsibility for, or significant involvement in, Fidelity's environmental or social footprint and corporate governance performance. The Committee meets every month, and more often as required.

The CSC's mandate is to develop and maintain a clear, ambitious and realistic corporate sustainability strategy for Fidelity Canada. Accordingly, the CSC oversees the assessment and management of climate-related activities with respect to Fidelity Canada as a business. The CSC also provides support, as needed, to FIC's sustainable investing activities. Assisted by the Corporate Sustainability team, the CSC is working on establishing climate-related goals, initiatives and metrics and implementing a comprehensive policy in this area.

As previously noted, FIC leverages the sustainable investing resources of our affiliate FIL. FIL's sustainable investing team works closely with FIC's investment management team and plays a key role in supporting the implementation of FIC's sustainable investing approach.

FIC's Responsible Investment Policy recognizes that climate change poses or can pose risks to the long-term profitability and sustainability of companies. This Policy is brought to FIC's Fund Operations Oversight Committee for review and approval, and to the Fund Oversight Committee, a subcommittee of the FIC board. The Chief Investment Officer (CIO) of FIC is responsible for adherence to FIC's Responsible Investment Policy. The following FIC and FIL individuals or teams are also responsible for implementing various aspects of our sustainable investing approach into the investment research process:

- The Directors of Research are responsible for the implementation of our proprietary ESG ratings coverage at both FIC and FIL.
- For ESG-focused funds, the Head of Investment Risk and Portfolio Oversight at FIC is responsible for analyzing, reviewing and discussing the aggregate ESG exposures within each portfolio with the individual portfolio managers and the CIO on a quarterly basis, as part of the quarterly investment reviews for each fund advised by FIC.

Strategy

TCFD recommendation:
Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning, where such information is material.

Fidelity Canada believes understanding the impacts of climate change on investee companies is important to creating long-term value for its clients. While we are still at the early stages of our journey, we are committed to integrating climate considerations throughout our businesses, and better understanding the impact of climate-related risks and opportunities on our strategy and financial planning, to improve long-term enterprise value and business performance for the benefit of our stakeholders, including our employees and clients.

Our approach to identifying climate-related risks and opportunities is grounded in the belief that they may be financially material. When this is the case, this is relevant to our long-term business performance – as well as to clients' long-term financial returns.

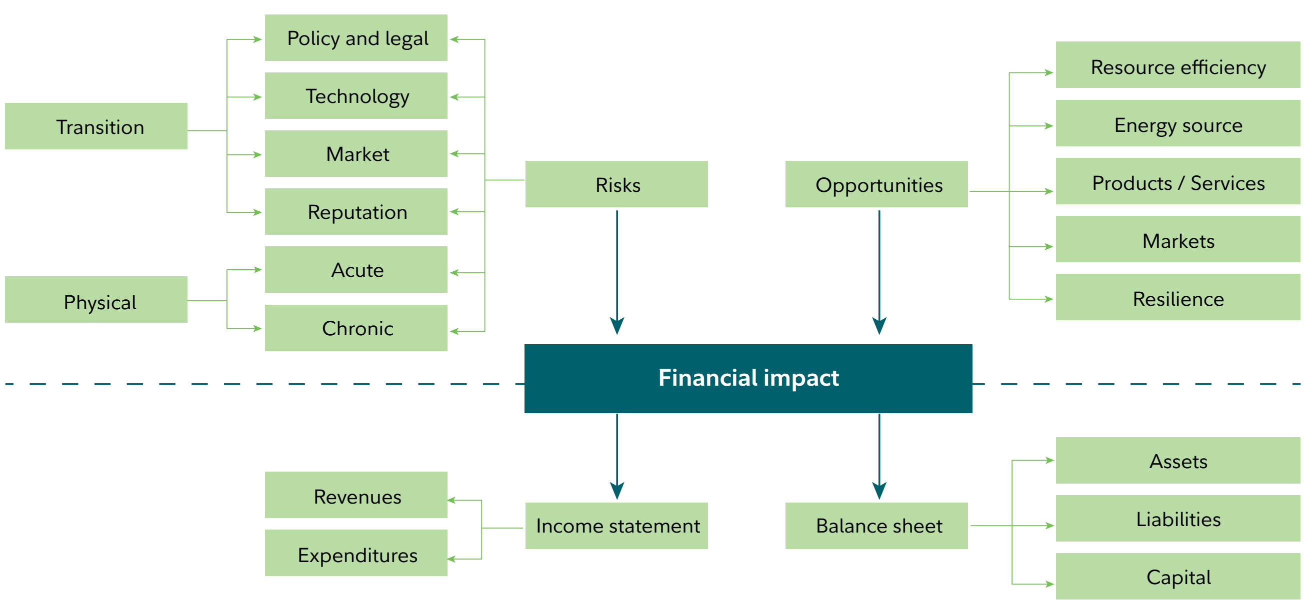
Climate-related risks can be broadly categorized into two groups:

Physical risks that arise directly from changing climate conditions. These can be acute, episodic risks such as tornadoes, flooding, typhoons and wildfires, or chronic, ongoing risks such as rising sea levels, scarcity of fresh water and supply chain disruption.

Transition risks that arise from taking the necessary steps to transition to a low-carbon economy. These may arise from regulatory actions, technological developments, reputational damage or market forces.

Climate-related opportunities may arise from investment in resource efficiency, low-carbon energy sourcing, the development of new products and services, access to new markets and customers and initiatives to enable business resilience.

Climate-related risks and opportunities



Source: TCFD.

Fidelity Canada's primary exposure to climate-related risk is indirect, with such risk most likely to affect future revenues and expenses (rather than assets and liabilities). This is because the assets that FIC manages and that FCC holds in custody belong to our clients, and not Fidelity.

Fidelity Canada's offices may be affected by challenging physical climate events, which we would consider to be a direct financial impact on Fidelity. Ultimately, we deem this potential impact to be limited and low, because we lease all our facilities, and our sites are evaluated for physical risks during the selection process and monitored on an ongoing basis. Fidelity Canada, through its global affiliates, maintains adequate insurance, which helps to mitigate financial loss due to the impact of physical climate risks (e.g., severe weather events). Finally, Fidelity Canada maintains enterprise resiliency plans to facilitate the continuation of business in the event of a business disruption, which includes disruptions related to physical climate risks.

As we shift to a low-carbon economy, climate-related risks and opportunities will materialize over short-, medium- and long-term time horizons. The following table provides an overview of key risks and opportunities that Fidelity Canada has identified across its business operations, investment management and clearing and custody activities.

Short term (<5 years)

Business operations

- GHG emissions control and reduction.
- Resource efficiency and resilience, including more energy-efficient buildings and data centres.
- Increased demand and focus from stakeholders to implement sustainable business operations and practices.
- Open and transparent disclosure regarding climate risk and opportunities.

Investment management

- The policy goals of governments and regulators may affect equity and bond issuer investment value through a change in growth and/or cost expectations.
- New climate-related disclosure, regulations or taxes could increase compliance costs and result in our products becoming less desirable to clients.
- Investee company approach to climate change risk and opportunity management.
- Changing client and consumer expectations for low-carbon or climate-friendly products and services.
- Client concern related to the carbon footprint of digital assets.
- Stakeholder perceptions of FIC's action in relation to climate change.

Clearing and custody

- New climate-related disclosure, regulations or taxes could increase compliance costs and result in Fidelity's products becoming less desirable to clients.
- Changing client and consumer expectations for low-carbon or climate-friendly products and services.
- Client concern related to the carbon footprint of digital assets.
- Stakeholder perceptions of FCC's action in relation to climate change.

Medium term (5–10 years)

Business operations

- Carbon price impact on energy and utility costs at office sites.
- Physical site vulnerability to impacts from climate change such as flooding, heatwaves or extreme weather.
- Costs to make a transition to lower-emissions technology (including capital investments and cost to adopt and deploy).
- Business disruptions across our supply chain due to an increase in severity and frequency of acute weather events.

Investment management

- Potential of increased demand from clients to lower the carbon footprint of products and services.
- Impacts of physical and transition risk on market factors such as equity prices, commodity prices and credit spreads, affecting value of AUM and client outcomes.
- Acute weather events expected to increase in severity and frequency, which may lead to business disruptions across our investments.
- Potential for continued shift in investment market and consumer preferences toward options that prioritize decarbonization.

Clearing and custody

- Increased demand from clients to lower the carbon footprint of products and services.

Long term (10+ years)

Business operations

- Lower availability of supply chain commodities due to weather variability.
- Chronic physical risk may lead to increased insurance costs for office sites.

Investment management

- Increased potential for climate-related litigation and/or legal or regulatory enforcement action.
- Impacts of physical and transition risk on market factors such as equity prices, commodity prices and credit spreads, affecting value of AUM and client outcomes.
- Chronic physical risks leading to increased insurance costs for businesses exposed to them, as well as potential destruction of assets.

Clearing and custody

- Increased potential for climate-related litigation and/or legal or regulatory enforcement action.

Investment management

In recent years, as the importance of sustainability has increased and opportunities to integrate it in our investment process have grown, we have evolved our processes and capabilities. And as a signatory to the UN Principles for Responsible Investment (PRI), we have formally committed to incorporate ESG issues, including climate change, into our investment research and active ownership processes. FIC's sustainable investing approach includes climate considerations in our investment research and proprietary issuer ratings process.

The cornerstone of our investment approach is bottom-up, fundamental research, and ESG factors serve as one of many research inputs in security valuation and are important considerations in the overall research process. This process, undertaken by our analysts, takes ESG factors into account when these have a material impact on either investment risk or return potential. Portfolio managers have full discretion in determining whether and how relevant and material ESG factors are to a company's evaluation, consistent with their investment objectives, investment strategies and investable universe. Accordingly, climate-related risks and opportunities, if deemed material and assessed as having a potential impact on long-term value creation, may be part of the analysis of each company held by FIC.

As well as studying financial results and other traditional investment metrics, our analysts are dedicated to carrying out additional qualitative and quantitative ESG analysis of potential and existing investments. They visit companies in person, scrutinizing issues that could have an impact on the business, from the shop floor to the boardroom. In this way, we seek to develop a 360-degree view of every company in which we invest – one that includes ESG factors.

The FIL Sustainable Investing team works closely with FIC's investment management team and plays a key role in assisting them with the implementation of FIC's sustainable investing approach, by:

- Working closely with the investment team globally, across asset classes, to help integrate ESG issues into the research process, where applicable.
- Engaging with investee companies on relevant ESG risks and opportunities, including climate-related factors.
- Maintaining a thorough understanding of current ESG themes and trends around the world.
- Attending external seminars and conferences focusing on trending ESG issues and ESG integration.
- Providing ESG training to the investment team and across the business.
- Providing internal ESG reporting, including analyst reports on current or emerging ESG themes and issues, portfolio manager reviews and industry analysis.
- Co-ordinating and responding to specific client queries on ESG topics.
- Implementing FIC's proxy voting guidelines.
- Client reporting on ESG integration and proxy voting, where requested.

As at December 31, 2022, FIL had 34 dedicated sustainable investing specialists. This team is responsible for collaborating with FIC on its approach to stewardship, engagement and the exercise of our votes at general meetings.

Proprietary ESG ratings

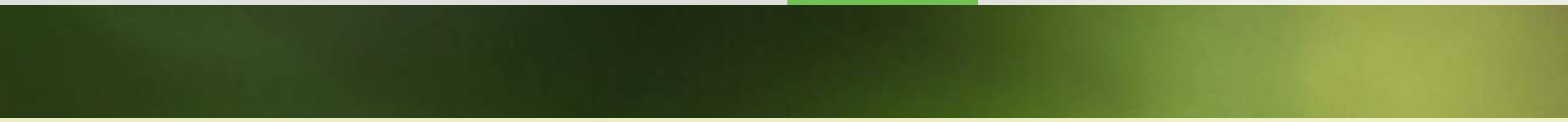
Our commitment to sustainable investment took a significant step forward in 2019 with the launch of proprietary ESG ratings developed by FIL. These ratings leverage our internal research capabilities and engagement with companies to inform our view on a company's sustainability credentials. In 2021, we developed and launched the second iteration of our ESG ratings.

The ratings comprise a combination of ESG indicators that aim to identify the most material issues in each sector, providing a holistic, forward-looking view of a company's practices. The new ratings methodology reflects the evolution of Fidelity's ESG integration approach by focusing on ESG from a business risk and opportunities perspective, and in terms of the societal implications of a company's operations. Our ratings methodology has been rolled out to most companies under our fundamental research coverage on a sector-by-sector basis. The ratings framework divides the investment universe into approximately 130 subsectors, each of which is mapped to a common set of indicators to identify the material ESG factors deemed relevant for that specific industry.

These inputs translate into a forward-looking top-line ESG rating (A to E, with A being the highest score) with pillar scores on each of the E, S and G, and scores for underlying indicators, providing granular output and insights. To complement the headline ESG rating, a trajectory rating is also assigned, which is an assessment of a company's expected sustainability progress over the next 12 months, relative to peers. Companies' sustainability characteristics are scored on an absolute basis under the framework.

Our ESG ratings are integrated into FIC's investment research process and are available to all members of the investment team on our internal research platform. They include climate-related objectives and serve as an additional source of insight and as a tool to support investment decisions and may help to encourage more sustainable corporate behaviour.

In addition to our own proprietary ratings, we use external research and rating providers such as MSCI and ISS Climate Solutions to complement our internal research process.



Focused sustainable products

In 2022, we invested in our capabilities to expand and improve our products. Our Product Development team, responsible for driving forward our sustainable investing product roadmap, expanded in 2022. We offer a suite of climate-focused funds, including Fidelity Climate Leadership Fund, an equity fund that invests primarily in companies anywhere in the world that are believed to reduce the risks, or are expected to benefit from the opportunities, associated with climate-related issues or the global transition to a low-carbon economy.[2]

Corporate operations

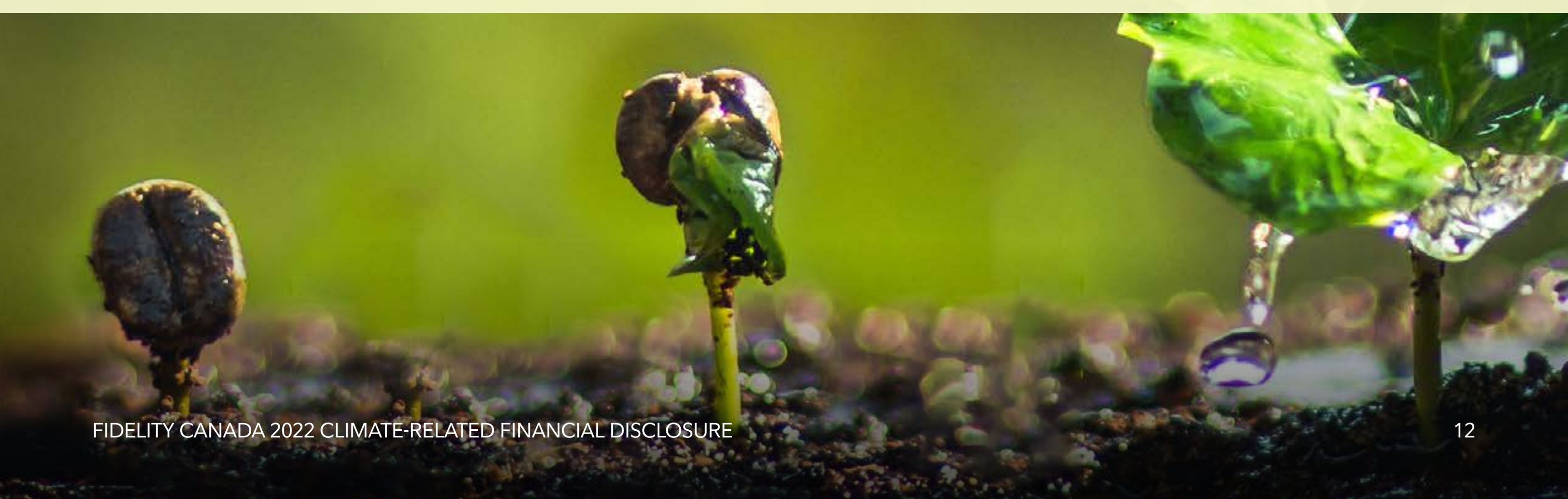
While we have been building our asset management capabilities in sustainable investing, we have also made progress in making climate-related risks part of our corporate thinking, processes and planning. Our enterprise-wide journey gained significant momentum in 2022, marked by the following key milestones:

- VP of Corporate Sustainability for Fidelity Canada appointed
- Fidelity Canada Corporate Sustainability team established
- Fidelity Canada Corporate Sustainability Committee established, and terms of reference approved
- formal integration of sustainability considerations, including climate, into our 2023–2025 business planning process
- inclusion of a corporate sustainability goal in our 2022 and 2023 Corporate Goals framework
- quantification of Scope 1, 2 and 3 GHG emissions associated with our business operations
- initiation of a project to quantify the GHG emissions associated with our investment activities, aligned with the Partnership for Carbon Accounting Financials
- formation of a TCFD cross-business working group of dedicated internal experts who support implementation of and disclosure in line with the TCFD's 11 recommendations

A key focus of our sustainability efforts in 2022 was understanding and quantifying Fidelity Canada's GHG emissions, to help prioritize our efforts to minimize our environmental impact. We established our baseline year (2019) and calculated our annual operational emissions profiles, which we share, as at year-end 2022, in this report (see the "Metrics and targets" section). Based on this insight and data – which we commit to tracking and disclosing annually – our CSC will work to establish climate-related goals and targets, strategic initiatives and additional metrics to measure the impact of climate-related risks and opportunities on our business in 2023 and beyond.

We have also been focusing our attention on assessing climate-related risks and opportunities in our supply chain. In 2022, our Procurement team evaluated external tools available to assess and monitor the sustainability performance of our most material suppliers, to help us understand risks and opportunities and drive improvements toward higher standards. We plan on implementing such a tool in the 2023–2025 business plans.

2 FIC offers other sustainable investing products that have not been included in this report because they are subadvised by other entities.



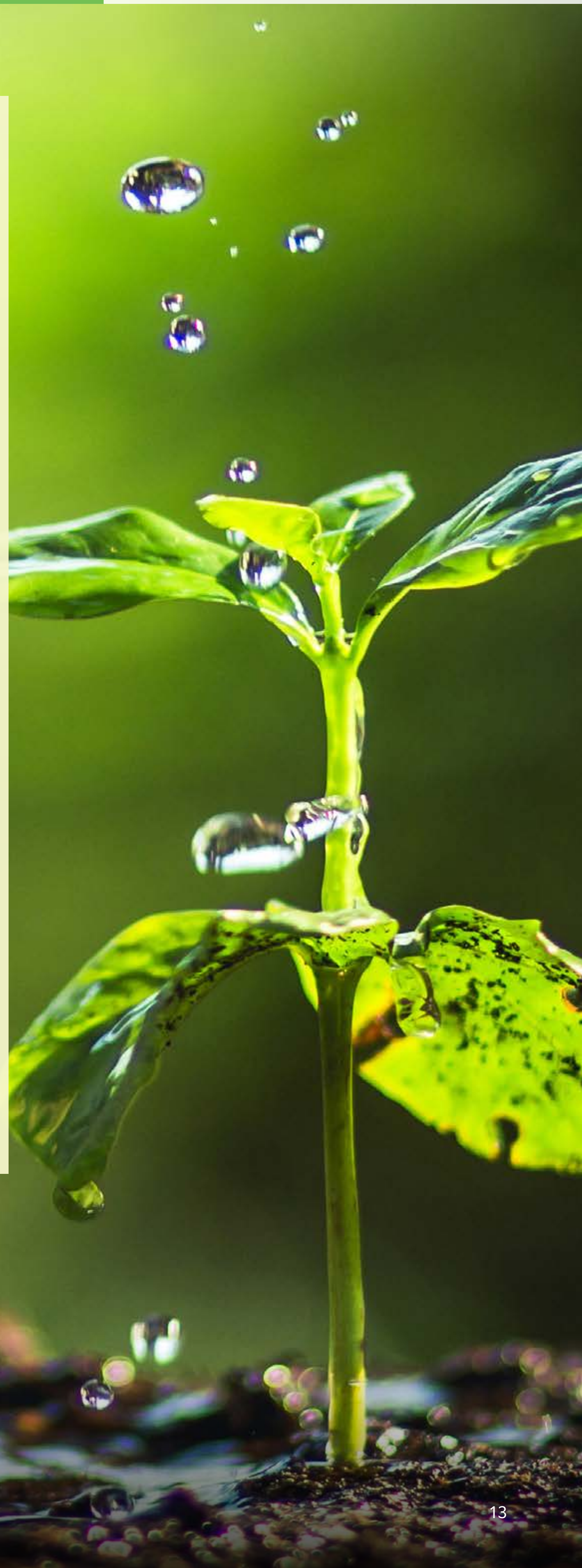
Scenario planning

While climate-related scenario planning is still in its early stages, Fidelity Canada believes it is an important forward-looking tool for the financial services sector, and that it will enhance stress testing and risk management practices and enable better-informed business decision making.

We aim to conduct an enterprise-wide climate-related scenario planning exercise in the near term. This exercise will help us to understand the impact of differing future states on our business strategy and performance. We look forward to including more detailed disclosure on this topic and related metrics in future reports.

Partnerships and collaboration

Working with industry peers and the financial services sector more broadly is a priority for Fidelity Canada. We are a signatory of the UN PRI, an associate member of the Responsible Investment Association, a Canadian organization committed to advancing and promoting the integration of ESG issues in the investment process, and a signatory of the Climate Action 100+, an investor-led initiative aiming to ensure the world's largest corporate GHG emitters take necessary action on climate change.



Risk management

TCFD recommendation:
Disclose how the organization identifies, assesses and manages climate-related risks.

Fidelity's approach to sustainability and broader ESG risk management is to have ESG expectations and ambitions embedded in Fidelity Canada's strategic planning activities, and in the associated risk management processes. Fidelity's Risk Management Framework (the Framework) defines a holistic approach to managing risk that is designed to support the effective identification of risks, potential events and trends that may significantly affect our ability to achieve strategic goals or maintain operations.

The Framework provides for the integration of climate-related issues into the organization's overall risk management process, as detailed below. From a broad perspective, ESG risk has been featured as an "emerging risk" in the Framework. Accordingly, we are increasing the focus on ESG through the development of our corporate sustainability strategy.

In 2022, Fidelity Canada established an ESG Risk Working Group to develop second-line risk management coverage in this area. The Working Group has been working to identify required actions and resources to integrate ESG-specific variables into the Framework and oversight mechanisms. Their mandate is to integrate data, tools and capabilities needed to support disclosure and risk identification and monitoring for ESG-related risks, including climate-related risks.

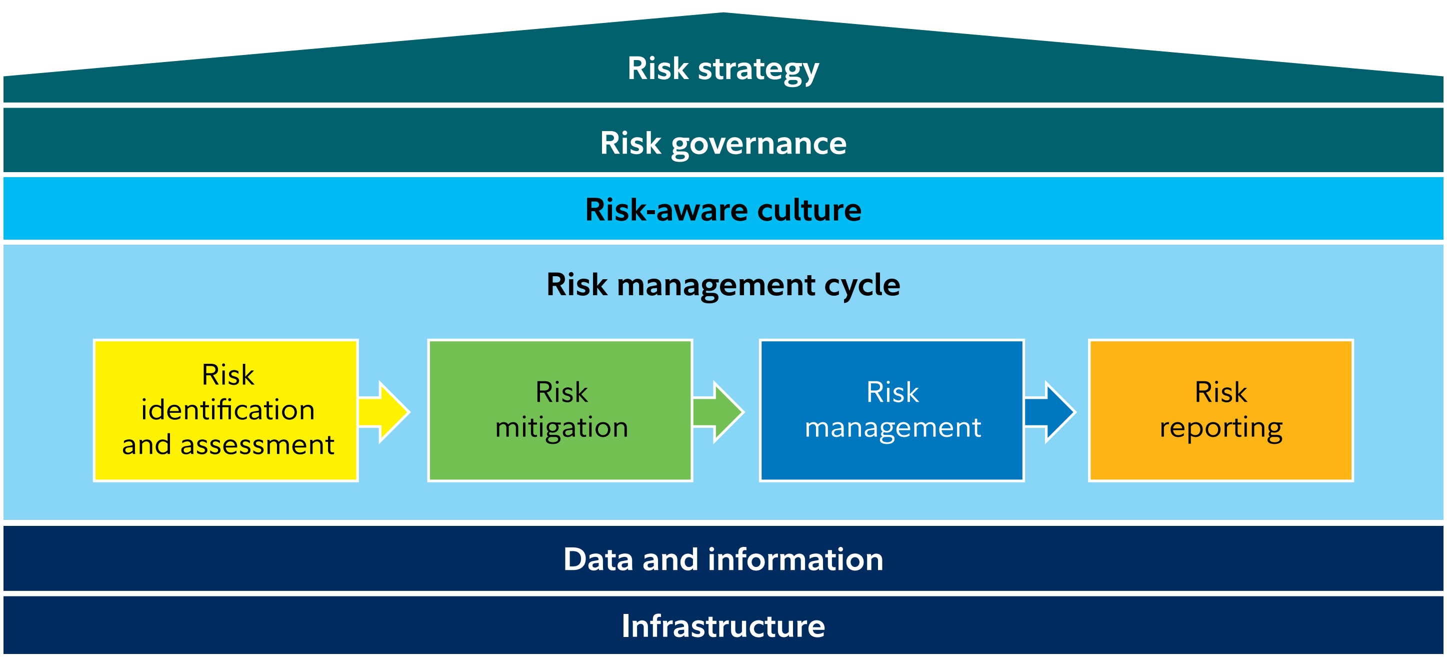
Approach to risk management

The Risk Management Framework takes a holistic approach to managing risk. It is designed to help identify risks, potential events and trends that might have a significant effect on Fidelity Canada's ability to carry out operations or meet strategic goals. The Framework sets out the guiding principles for the management of the different risk types, defines roles and responsibilities of key stakeholders and defines governance and escalation pathways.

Fidelity Canada's risk strategy seeks to ensure that effective risk management is embedded in core operating and decision-making processes across the organization, and that existing and emerging risks are identified and managed within acceptable risk tolerances.

Fidelity Canada's risk strategy is supplemented by strategic risk and risk appetite frameworks. This includes the management of emerging and disruptive risks, and establishing risk appetite statements and related metrics that reflect the aggregated level of risk that the business is willing to tolerate to achieve its business objectives.

The diagram below reflects how core elements of the Framework are applied to support Fidelity Canada's risk strategy.



Investment management

As discussed in more detail, our investment research framework helps us to identify, assess and consider material climate-related risks for each product or investment strategy. Our sustainability research and ratings evaluate the extent to which issuers manage their material environmental and social impact by incorporating the principles of "double materiality," integrating non-financial sustainability considerations alongside traditional financial risk and return goals, as well as considering the sustainability impact of the investments recommendations. By considering an extended time horizon (ten years), we seek to cover all likely external material impacts.

The impact on a company from climate change, or its own impact on climate change, is considered in the environment pillar, where indicators such as energy consumption, water usage, GHG emissions and deforestation are accounted for, when they are deemed to be material. The simplified example below highlights the differences in how we would assess the materiality of climate change factors for an energy-focused industry such as utilities, compared with an enabler of energy-related activities, such as the banking industry. Much of the weighting for utilities is associated with GHG emissions, while the majority of scoring for banks is associated with the impact of activities enabled by the banks' financing.

By combining quantitative and qualitative inputs from our fundamental and sustainability research analysts, we seek to ensure that our sustainability assessments are forward-looking and focus on the issues that matter most. The result of these processes is separate issuer scores for E, S and G, as well as an overall issuer score and trajectory rating, along with detailed information relating to the quantitative and qualitative inputs driving each score. The integration of sustainability in our research allows us to consider climate-related risks, as well as other environmental risks, through bottom-up analysis.

Environment indicator weighing

	Energy consumption	GHG emissions	Environmental impact associated with enabled activities
Electric utilities	Medium	High	Medium
Banks	Low	Low	Very high

Portfolio review

Our ESG ratings for each company are bound by a combination of E, S and G pillar scores. These set hard limits on companies' ratings, meaning companies cannot be rated exceptionally strongly if they are significantly lagging in one of the three pillars. Therefore, companies which are not doing particularly well in, for instance, the E pillar, where climate-related indicators are considered, will have a limited score, which can affect our investment decisions if it is deemed material.

Individual portfolios are also subject to an in-depth quarterly investment review with senior management. Every aspect of the fund in question is examined, including risk profile, volatility, performance, fund positioning and the fund's individual investments. Along with other risk metrics, these quarterly reviews may consider ESG rating assessments and carbon data as standard measures of the ESG quality of our funds.

Investment stewardship

One aspect of Fidelity's approach to active ownership involves the engagement and proxy voting activity we undertake to gain a deeper understanding of a company's approach to ESG, the impacts of material ESG risks and opportunities on a company's business and ensuring that their practices do not lead to unpriced material ESG risks.

Engagement is implemented as part of our overall fundamental research process and is generally applied across issuers, and will include discussions of ESG and other factors where they have a material impact on either investment risk or return potential. We maintain an ongoing dialogue with the management of investee companies. Formal meetings involving both portfolio managers and analysts are held with investee companies at least twice a year. In addition to these regular engagements, there are a variety of other opportunities for ad hoc engagements, including

- Responding to a controversy or adverse event (e.g., evidence of poor governance).
- Firms flagged by our analysts during the proprietary sustainability rating assessment as good candidates for engagement (e.g., exposure to sustainability risks).
- Fidelity International's Sustainable Investing team may conduct a thematic engagement on a particular sustainable investing issue (e.g., supply chain management).
- Issuers may request engagement on a specific governance or corporate event (e.g., mergers and acquisitions).
- Through involvement with a third-party engagement forum (e.g., Climate Action 100+).

Once we have identified an engagement opportunity, we believe the best approach is constructive dialogue with companies to explain our beliefs and expectations, and to encourage positive shifts in their practices and policies. Because of Fidelity's reputation for a fundamental and long-term approach to investing and our long-standing relationships with issuers worldwide, we believe we are well placed to use our influence on issuers to promote more sustainable practices. We therefore believe that engagement is often a better way for us to drive change than simply excluding companies from our portfolios.

Our engagement process is designed to be well defined and transparent, with the following components identified at the outset:

- **key issue areas:** the themes for which the company has room for improvement (e.g., climate change)
- **objective:** the ultimate desired outcome from engagement (e.g., reduced carbon emissions)
- **milestones:** indications that the company is making efforts to achieve the objective we have communicated (e.g., setting a carbon reduction target)
- **key performance indicators (KPIs):** it is important that there are measurable KPIs set against the milestones
- **timeline:** the timeframe in which we can reasonably expect a company to improve
- **status:** a point-in-time measure of progress (e.g., no progress vs. some progress vs. success)

Monitoring the progress of engagements is as important as initiating them, to assess change and success against milestones and objectives. Our analysts, portfolio managers and sustainable investing specialists document all engagements with issuers in a centralized application platform that is available to the entire investment team. This transparency allows the team to learn across sectors, themes and asset classes, enriching our depth of knowledge. Engagements can have various timeframes depending on the materiality and urgency of the ESG topic in discussion, and the outcomes (or lack of outcomes) from our engagements are reflected by our analysts in our ESG ratings framework.

Voting is a fundamental part of our engagement with investee companies and is underpinned by the objectives of upholding good corporate governance standards across our equity holdings, preserving shareholder rights and supporting companies that are sustainable, responsible and accountable to their shareholders. As part of our broader voting principles and guidelines, FIC sets out specific minimum expectations of our investee companies in terms of governance of climate change oversight, practice and action. We believe that voting is an invaluable tool to signal our expectation and improve corporate behaviour to better manage companies' risks and leverage new opportunities.

Metrics and targets

TCFD recommendation:
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.

In 2022, we began to evaluate and determine appropriate metrics to assess the impact of climate-related risks and opportunities on our businesses. Factors we are considering include data and methodology, quality and availability, the needs of our clients and regulatory requirements.

Corporate operations

In 2022, we carried out extensive data collection and calculation work to develop a comprehensive operational GHG emissions inventory for Fidelity Canada. We calculated our profile in accordance with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, using the operational control methodology. The inventory is calculated in tonnes of carbon dioxide equivalent (tCO_2e), across all three Scopes, as follows:

- **Scope 1** – Our consumption of natural gas, fugitive emissions from refrigerants and fuel consumed by our backup generators.
- **Scope 2** – Emissions emanating from our electricity consumption, which has been calculated using the location-based methodology, in line with the average grid energy mix by province of operation.
- **Scope 3** – Emissions associated with business travel, including energy consumed by our employees who have travelled via their personal vehicle, a rental car, train or air for business purposes; in addition, we have included employee commuting and teleworking emissions, as well as waste generation, water consumption and purchased goods and services.

Table 1 below discloses our operational GHG emissions footprint and includes data for 2022 and from the three previous years. We have selected 2019 as our baseline year, as this was the last completed fiscal year prior to the COVID-19 pandemic, and to align with global efforts related to collecting GHG emissions inventory and establishing targets. We are currently reporting on four out of the fifteen Scope 3 categories defined by the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard relevant to our organization and intend to expand this disclosure based on materiality and confidence in our source data and methodologies in the near term. The main contributors to our GHG emissions profile across all scopes were purchased goods and services and business travel, both prior to and following the pandemic. From 2019 to 2021, we witnessed a reduction in emissions, largely due to COVID-19 pandemic impacts. There was a significant decrease in emissions from business travel (95%), which contributed to an overall reduction of 24% in total GHG emissions in 2021 compared with our 2019 baseline. Other notable reductions were seen in waste, water, electricity and natural gas consumption due to lower occupancy of offices. However, our overall GHG emissions rebounded in 2022 as we embraced a post-COVID-19 pandemic dynamic workplace model.

For 2019–2022, we also calculated the associated GHG emissions from home-based working and employee commuting for internal use. These data give us a more complete picture of our Scope 3 emissions, given the majority of our workforce was working for a proportion of their time from home rather than commuting during the pandemic. In this report, we have not disclosed this category, given the significant reliance on proxy data and assumptions in our calculations, but we intend to improve the robustness of our methodology by assessing and incorporating new standards and guidance with the objective of more accurate future public reporting on these important areas.

Table 1: Fidelity Canada operational greenhouse gas emissions for the years ended 2019–2022 (expressed in tonnes of CO_2 equivalent/tCO_2e)

EMISSIONS SOURCE		2022	Δ Y-O-Y	2021	Δ Y-O-Y	2020	Δ Y-O-Y	2019
Scope 1	Natural gas	209	27%	165	-10%	183	-19%	225
	Diesel	14	100%	7	–	–	-100%	23
	Refrigerants	–	–	–	-100%	1	–	–
Scope 2	Electricity (location-based calculation)	88	-8%	96	-18%	117	-9%	128
Scope 3	Purchased goods and services	16,018	19%	13,446	48%	9,055	-44%	16,081
	Business travel	689	819%	75	-78%	339	-78%	1,564
	Waste	42	250%	12	-37%	19	-32%	28
	Water	1	–	1	-50%	2	-60%	5
Total emissions (Scope 1, 2 and 3)		17,061	24%	13,802	42%	9,716	-46%	18,054

Investment management

As investors, we have tools to monitor climate change-related issues and carbon emissions exposure across our funds. Our fundamental research team incorporates material climate-related issues into the research they conduct on the companies they cover. Through our active engagement and proxy voting practices, we also aim to encourage companies to improve policies, disclosure and management accountability on climate change issues.

Across our investment activities, we use carbon footprint and carbon intensity as metrics to assess and identify GHG emissions risks in our portfolios:

- Weighted average carbon intensity (WACI) ($tCO_2e/m\$$) is used for ex-post portfolio measurement, reporting and analysis for most assets.[3]
- Carbon intensity (Scope 1 and 2) ($tCO_2e/m\$$) is used for ex-post portfolio measurement, reporting and analysis for most assets.[4]

In addition, an extended range of climate-relevant data may be considered throughout the investment research process, as described in the sections above, including material climate aspects in the ESG ratings and analysis.

To identify how climate-related factors affect our investees, we rely on our fundamental research and analysis capabilities. We use our proprietary ESG ratings (described in more detail in the "Strategy" section) as a forward-looking tool to gain comprehensive insight into companies' various sustainability characteristics, including their approach to climate change.

3 Methodology: Sum (Company carbon-to-revenue intensity x Value of holding weight).

4 Methodology: Sum (Apportioned emissions) / Sum (Apportioned revenue).

A high score on matters related to climate change, for instance, is awarded when an issuer demonstrates visible and robust action on managing climate risks for the future, which goes beyond a simple disclosure.

Below is a sample of specific metrics that we have identified as a proxy for translating climate-related factors into measurable values for climate-related risks and opportunities at an investee level. These are used within our investment research process:

- GHG emissions throughout product lifecycles
- resource and material efficiency
- revenue generated from business that is compounding or mitigating climate change

By drilling down into the detail, we can highlight climate issues that are most material to a company – for example, a bank's Scope 1 and 2 carbon footprint is less relevant than the areas it services with lending and investment banking.

Targets

As part of the development of our corporate sustainability strategy, Fidelity Canada's CSC intends to begin setting targets in 2023 to manage climate-related risks and opportunities, and to make annual disclosures of our performance. We are committed to continually improving how we manage our own operations and core business activities to limit the impact we have on the natural and social environment upon which we depend.

Conclusion

Fidelity Canada seeks to deliver the best possible outcomes for our clients. Accordingly, we recognize that considering climate-related risks and opportunities drives better decisions and leads to better long-term financial, environmental and social outcomes for our clients and broader stakeholders.

We are still in the early stages of developing our strategic approach to assess and manage climate risks and opportunities. Year by year, we will enhance the transparency of our disclosure, focusing on sharing the steps and actions we've taken to build a business that is more resilient to climate impact. We look forward to sharing our progress and challenges as we move forward in this journey.

Our business purpose – working together to build better financial futures – commits us to playing our part in addressing climate change, for the long-term benefit of our employees, our clients and our society at large.

Providing feedback

This disclosure is published for all stakeholders of Fidelity Canada. We welcome your questions and feedback on our approach at corporatesustainability@fidelity.ca.

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