

Measuring social impact as part of your approach to ESG

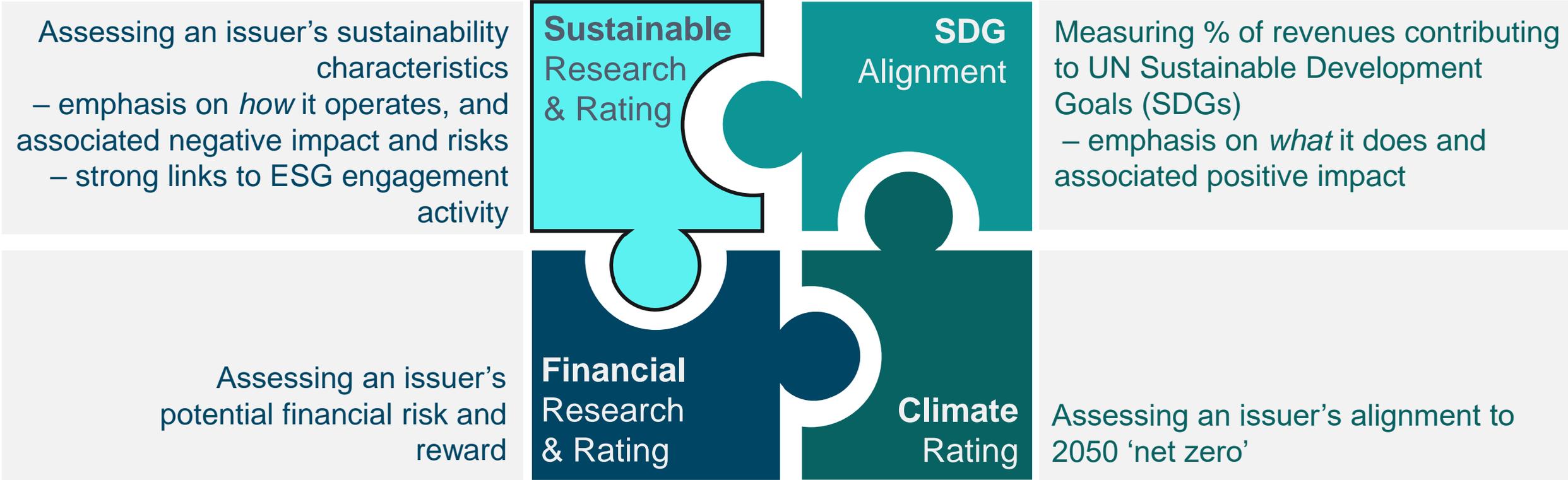
The potential of measuring social factors

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Fidelity sustainability research

Four components to our research platform



Source: Fidelity International, 2022.

The ratings process

Overview

Step 1. Identify material indicators/weightings

Customized materiality maps created for **127** individual subsectors

Drawing on up to:

 **26** environmental,

 **14** social,

 **7** governance indicators

Step 2. Score individual indicators



60+ Environmental datapoints



30+ Social datapoints



40+ Governance datapoints

Research conducted by Fidelity's team of c. **160** sector specialist analysts

Step 3. Rate

Actionable outputs for c. **4,200**

issuers* including:

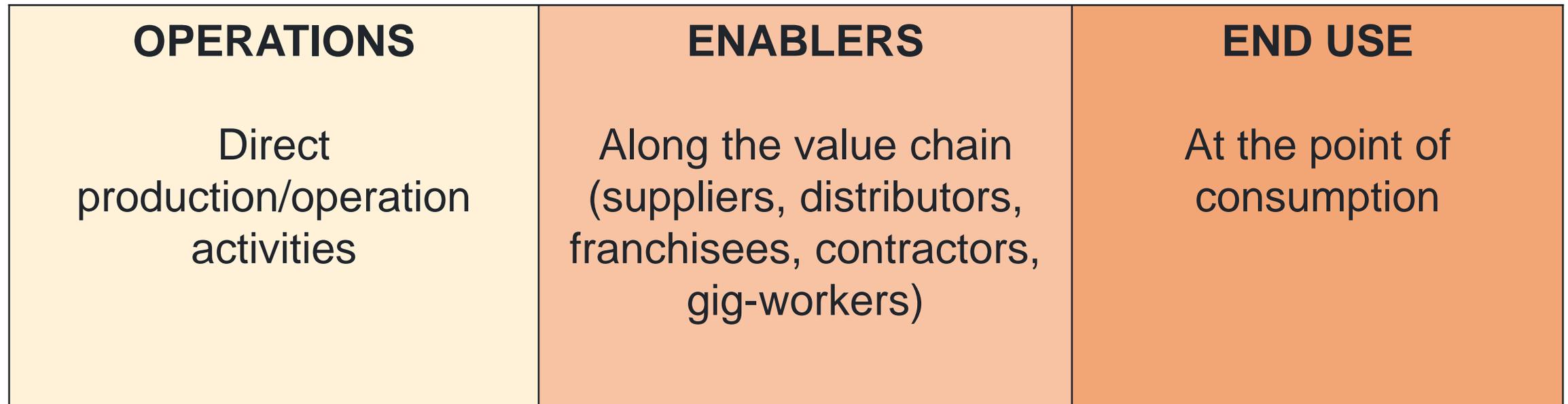
-  Sustainability rating
-  Trajectory rating
-  Environmental Impact score
-  Social Impact Score
-  Governance Score

A process which blends quantitative and qualitative input, and produces flexible and actionable insight

Source: Fidelity International, December 2021. * Issuers with FIL Sustainability Rating as at 30 December 2021.

Step 1 - Mapping out societal impact

Key material areas of social impact in financial services



Step 1 – Spotlight on material social indicators

Incorporating indicators across the value chain

Operations

- 1 Employee management (Diversity & Inclusion)
- 2 Cyber security management
- 3 Operation safety
- 4 Community impact management
- 5 Business continuity
- 6 Corporate ethical conduct

Enablers

- 7 Enabler labour practice
- 8 Enabler management



End use

- 9 Product/service quality
- 10 User data privacy
- 11 Responsible marketing/labelling
- 12 Product/service misuse
- 13 Broadened access for basic goods/services
- 14 Social impact associated with enabled activities

Source: Fidelity International, 2022.

Step 1 – Spotlight on weighted material social indicators

Specific to the insurance sector

Operations

1 Employee management (Diversity & Inclusion)

2 Cyber security management

3 Operation safety

4 Community impact management

5 Business continuity

6 Corporate ethical conduct

Enablers

7 Enabler labour practice

8 Enabler management



End use

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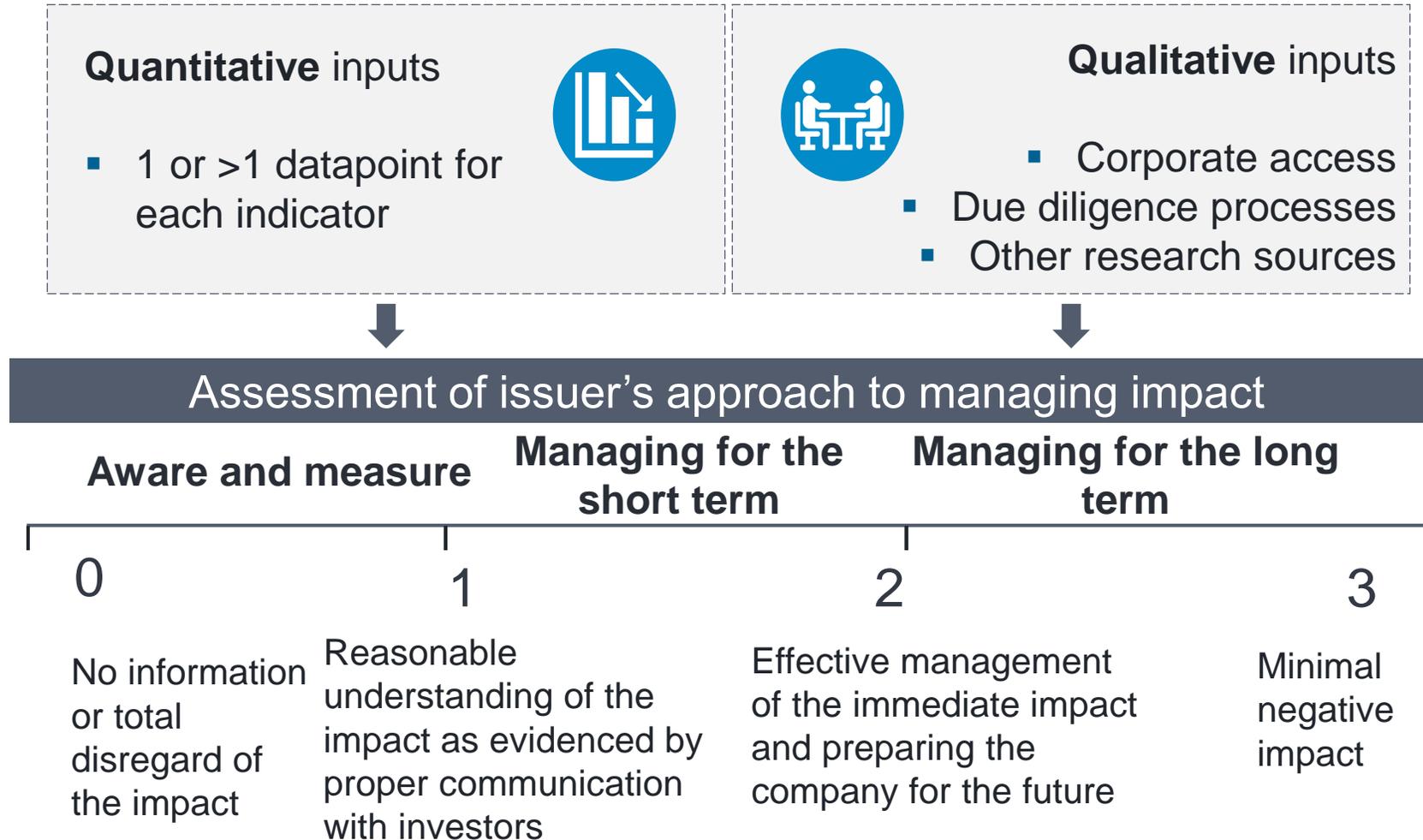
13 Broadened access for basic goods/services

14 Social impact associated with enabled activities

Source: Fidelity International, 2022.

Step 2 – Score the issuer on individual indicators

What are we scoring?



Step 2 – Score the issuer on individual indicators

Example of employee management

Quantitative inputs



- Total # of employees and breakdown by employment type, age, gender
- Number of days lost to injuries, accidents, fatalities or illness
- Attrition rate by employment type
- Average training hours
- Female representation on board & senior mgmt.
- Gender pay gap
- CEO pay ratio
- Major layoffs
- Does the company have a workplace accident prevention policy?
- Labour related controversies (three years)

Step 2 – Score the issuer on individual indicators

Example of employee management

Qualitative inputs



- Actions to ensure the basic welfare of employees including health and safety, reasonable compensation and benefits
- Efforts to attract, engage and retain a diversified workforce through well-designed trainings, career development opportunities and share incentive plans
- Efforts and measures to promote D&I:
 - D&I policy & procedures,
 - establishment of measurable D&I targets and objectives
 - continuous progress tracking and reporting
 - D&I training programs, returner programs, etc.

Step 3 – Rate the issuer

An actionable measurement of sustainability



Rating reflects analysts' judgement

Do you consider that these factors will materially add to or detract from enterprise value creation over a 10 year horizon?

Sustainability rating		
Materially additive	++	A
Additive	+	B
Neutral	=	C
Detractive	-	D
Materially detractive	--	E

Bounded by the ESG pillar scores

Only if two pillars score '2' or higher

If one pillar is '1' or lower, rating must be C or lower.

If all three pillars are scored '1' or lower, rating must be D or E

Source: Fidelity International, 2022.

Step 3 – Rate the issuer



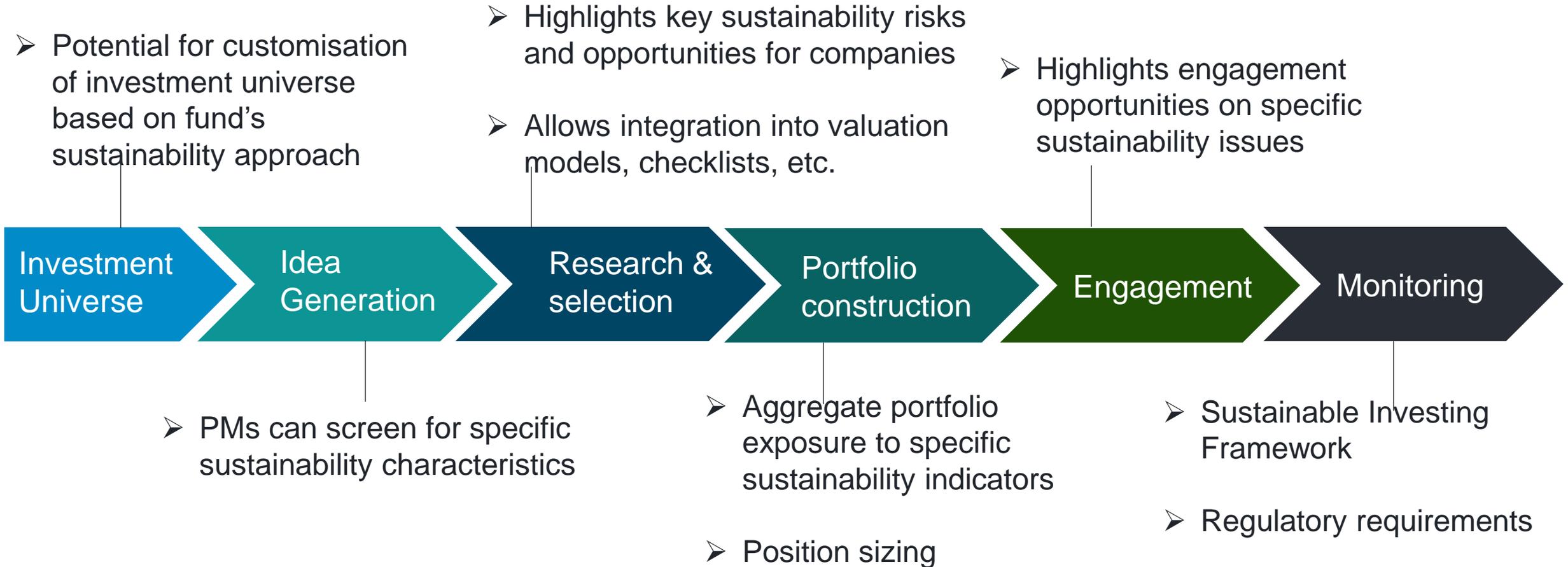
The trajectory rating reflects the issuer's direction of travel

Rating reflects analysts' judgement	Trajectory rating		
<p>What is your assessment of the company's sustainability progress over the next 12-month relative to its peers?</p>	<p>Improving</p>	<p>Expect the company to make faster progress than peers over the next 12 months</p>	
	<p>Stable</p>	<p>Expect the company to make progress in line with peers over the next 12 months</p>	
	<p>Deteriorating</p>	<p>Expect the company to make slower progress than peers over the next 12 months</p>	

Source: Fidelity International, 2022.

Multiple ways in which this data is integrated – not just for reporting

Would you use it to **prove, improve, or learn?**



Social indicators can be a bellwether in risk mitigation and management

- Growing awareness of business risks arising from social factors
- These points apply equally to fund managers; the value chain extends to the investment activities – and screening and assessment process – that managers undertake on your behalf
- Consistent, meaningful metrics enables comparison and benchmarking over time and, ultimately, should inform performance