

Measuring social impact as part of your approach to ESG

The potential of measuring social factors

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October 22

Fidelity sustainability research

Four components to our research platform

Assessing an issuer's sustainability characteristics
– emphasis on *how* it operates, and associated negative impact and risks
– strong links to ESG engagement activity

**Sustainable
Research
& Rating**

**SDG
Alignment**

Measuring % of revenues contributing to UN Sustainable Development Goals (SDGs)
– emphasis on *what* it does and associated positive impact

Assessing an issuer's potential financial risk and reward

**Financial
Research
& Rating**

**Climate
Rating**

Assessing an issuer's alignment to 2050 'net zero'

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:

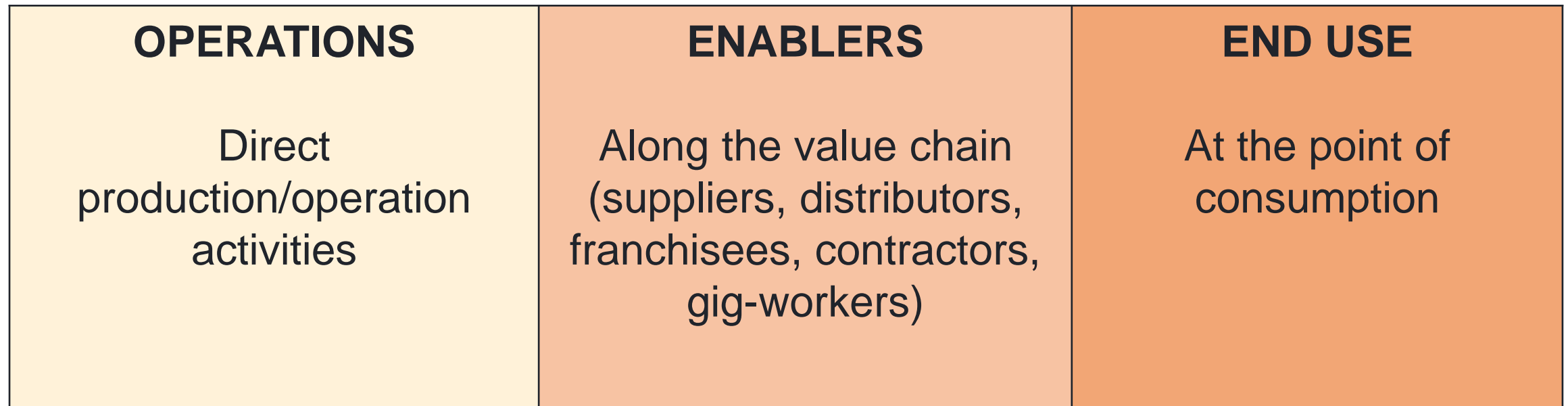
-  Sustainability rating
-  Trajectory rating
-  Environmental Impact score
-  Social Impact Score
-  Governance Score

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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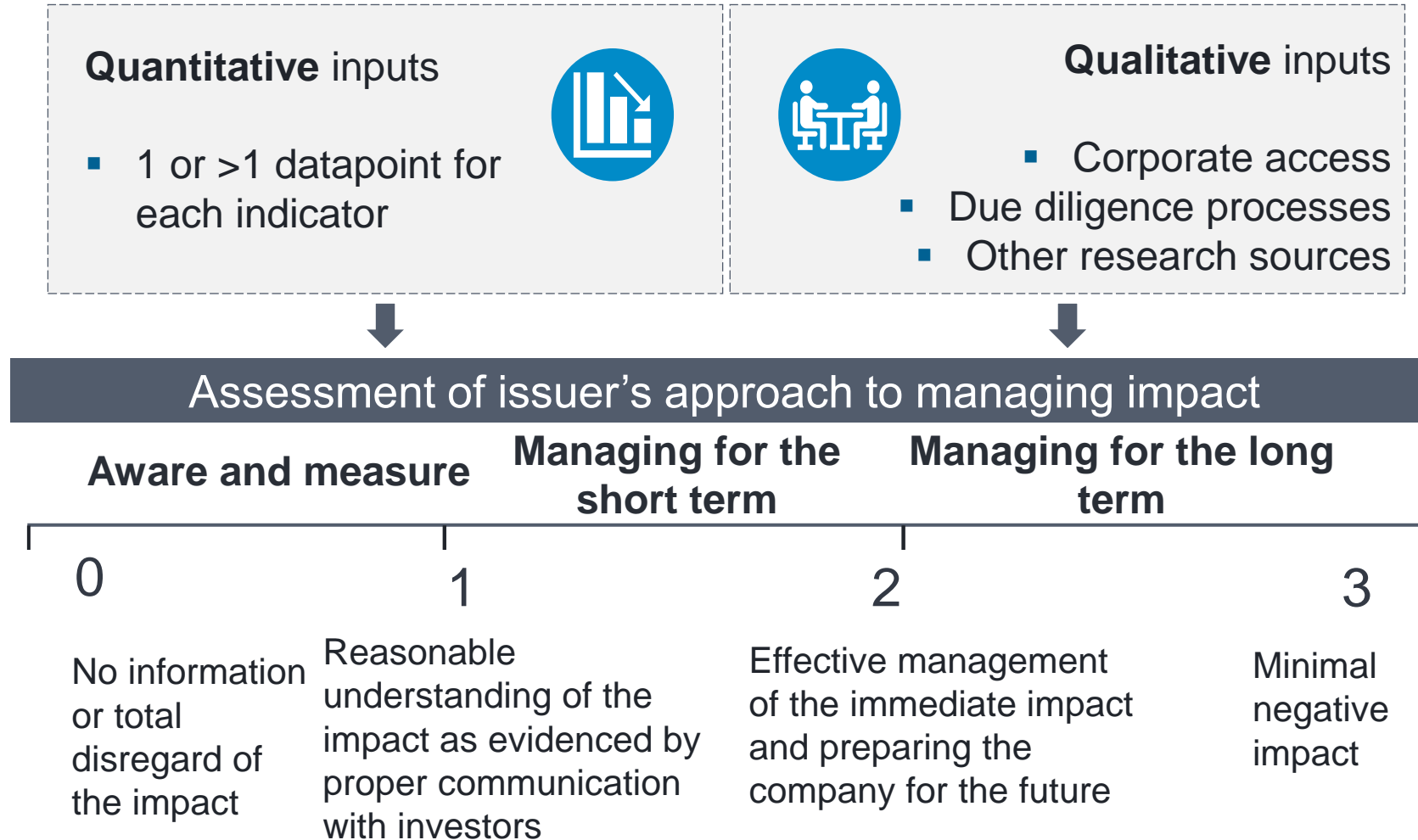
13 Broadened access for basic goods/services

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	Sustainability rating			Bounded by the ESG pillar scores
Do you consider that these factors will materially add to or detract from enterprise value creation over a 10 year horizon?	Materially additive	++	A	Only if two pillars score '2' or higher
	Additive	+	B	
	Neutral	=	C	If one pillar is '1' or lower, rating must be C or lower.
	Detractive	-	D	
	Materially detractive	--	E	

Source: Fidelity International, 2022.

Step 3 – Rate the issuer



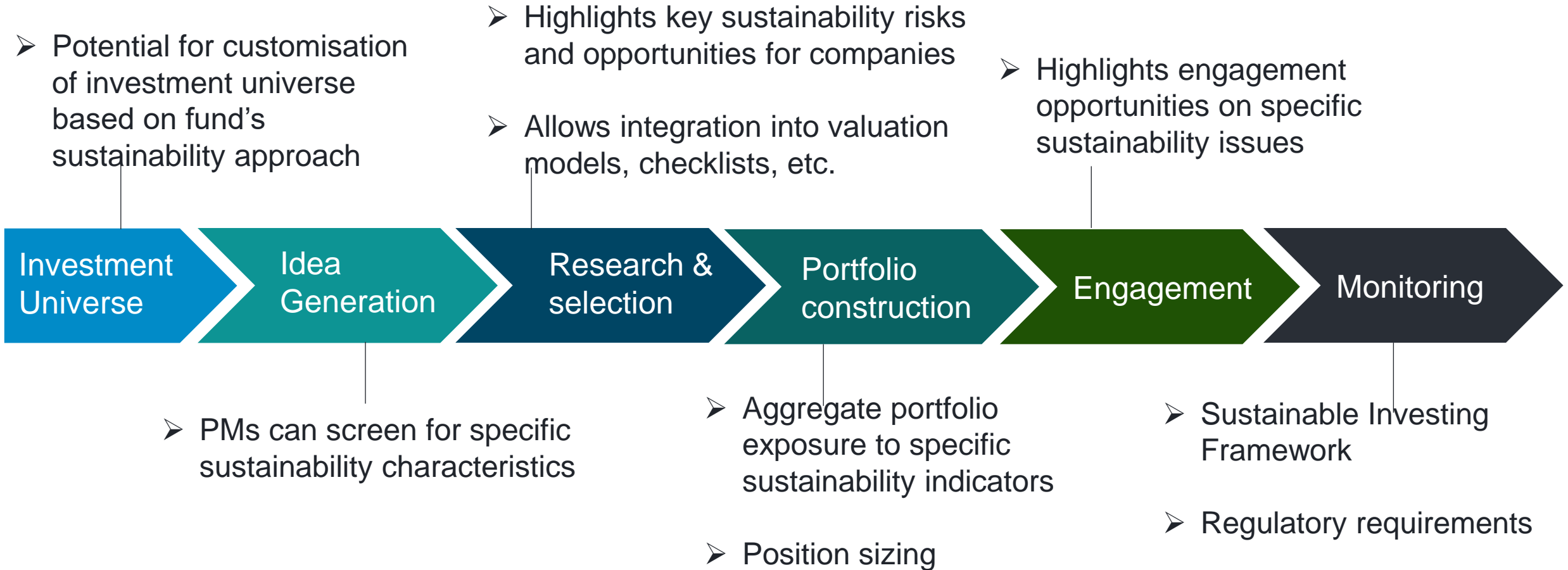
The trajectory rating reflects the issuer's direction of travel

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