REGULATORY

# FIL Life Climate Report aligned to the Task Force on Climate-Related Financial Disclosures (TCFD) - 2023

Fidelity INTERNATIONAL

# Contents



## INTRODUCTION

**Attestation:** I can confirm that the disclosures in this report comply with the requirements set out in the FCA Handbook (ESG 2)

**Marianne Jaekel**
FIL Life Chief Executive Officer

## THE PURPOSE OF THIS CLIMATE REPORT

The aim of this report is to give our clients and stakeholders an understanding of the climate-related risks and opportunities FIL Life faces. It shows how we address them, and how we incorporate them into our governance, strategy, risk management, metrics and targets.

## ABOUT THIS REPORT

This report is for FIL Life Insurance Limited (referred to as 'FIL Life', 'we', 'us', or 'our' in this report).

It's consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the supplemental guidance for Asset Owners. The TCFD framework helps us give our investors clear, easy-to-compare information about the environmental impact of their investments.

It also follows local regulatory disclosure requirements[1].

FIL Life is an Asset Owner, and a subsidiary entity of FIL Limited. 'Asset Owners' are pension providers and life insurers.

There is another report for FIL Limited (referred to as 'Fidelity', 'Fidelity International', and 'the Group'.) FIL Limited is an Asset Manager. 'Asset Managers' invest wealth. They monitor and assess the market to look for threats and opportunities, and adjust clients' portfolios accordingly.

There are two reports because, while they are both part of Fidelity International and share the same business operations, they operate in different areas. These two reports are 'companion' reports. They refer to each other, and they're designed to be read together to give readers a complete understanding across Fidelity International.

You can find the **Asset Manager report here**.

FIL Life outsources its business operations to other Fidelity International entities. The Asset Manager report shows how we address climate-related risks and opportunities in our business operations. These include energy, waste, and business travel. The Asset Manager report also provides financial and climate-related information about Fidelity funds and investment portfolios.

[1] See Appendix for the regulations

## WHY HAVE WE PRODUCED THIS REPORT?

The Financial Conduct Authority (FCA) has rules and guidance about climate-related financial information and how it's disclosed. Alongside that, the TCFD framework sets out what information we must share with our clients and their members.

This report relates to the climate-related risks and opportunities of any FIL Life business that's in-scope. We support disclosing this information because it helps to provide greater transparency – for our Trustees and employers, our corporate investors and our pension scheme members.

The FCA allowed us to defer producing our TCFD report by a year to 30 June 2024. This is because our Assets under Management (AUM) in relation to in-scope business is less than £25bn. As of December 2023, it was c£14.5 bn.

AUM is calculated as a three-year rolling average on an annual assessment for the 1 January 2022 – 31 December 2022 reporting period.

## WHY CLIMATE-RELATED INFORMATION IS IMPORTANT

The latest UN climate report, dated March 2023, states that we've already reached 1.1°C of global warming above pre-industrial averages. By 'pre-industrial', we mean the period 1850-1900. This was before fossil-fuel burning started to change the climate.

It's important to lay out our approach to climate change. We need to do this for FIL Life's **business operations**, and for the **investments** we make available to clients and their members. This covers our investment solutions – FutureWise and Investment Pathways – and the funds we offer. FutureWise is FIL Life's default investment strategy and includes a range of Target Date Funds. (The 'target date' of a fund is the anticipated date of retirement). Investment Pathways is available to members in retirement only.

Climate change could have a substantial impact on members' retirement savings, and we need to understand what that impact could be. We also need to know what tools are available to help us manage the material effects of climate change, and the opportunities that could arise.

> Climate change is a threat to human wellbeing and planetary health. There is a rapidly closing window of opportunity to secure a liveable and sustainable future for all. The consequences for humanity are already being felt and are likely to worsen."

The Intergovernmental Panel on Climate Change (IPCC) is the United Nations body for assessing the science related to climate change. IPCC Climate Change Synthesis Report March 2023[2].

## ABOUT FIL LIFE

FIL Life is part of Fidelity International.

FIL Life provides unit-linked pension products that enable members of company pension schemes in the UK to save for their retirement. We also refer to the companies that hold the pension schemes as our 'clients' and their members as 'policyholders'. Investments are made into life funds, which invest in underlying funds. These are managed either by Fidelity International or other selected third-party Fund Managers and insurers.

FIL Life was responsible for managing £41.5bn of linked pension assets across all our client types, as of 31 December 2023. These are also referred to as Assets under Management, or AUM. This £41.5bn includes the £14.5bn of assets that are in-scope for this TCFD report.

Life funds invest into companies that generate Greenhouse Gas (GHG) emissions. This affects climate change, and a changing climate could have a financial impact on FIL Life and our clients' investments.

[2] **IPCC report**

## THE IMPACT OF CLIMATE CHANGE ON FIL LIFE'S BUSINESS

There is no material **direct** exposure to climate-related risk that impacts FIL Life's balance sheet, although the value of investments could affect our revenue. There are **indirect** risks, for example, where climate-related risks and opportunities can affect the market value of investments.

## THE IMPACT OF CLIMATE CHANGE ON INVESTMENTS

Every company a fund invests into is exposed to climate change in some way. Most of our emissions come from, or are related to, these companies. They are called 'financed emissions'.

There are both direct and indirect impacts of climate change on our investments. Direct impacts include increased physical risks of damage and loss of productivity from weather-related events. Indirect impacts might mean we need to change or adapt our business practices and industrial processes to reflect the move to a lower carbon economy.

We can't address everything that's impacted by climate change, so we report 'material' information. This is when we believe it's sufficiently important to impact the investment decisions for the funds we use in our solutions. It could also affect our business as an Asset Owner.

FIL Life takes responsibility for the design of investment solutions and retains its responsibility for managing climate -related financial risks.

## OUR APPROACH TO CLIMATE CHANGE

Where we view the climate-related risk as being 'material', we aim to integrate its management into our investment solutions. We also offer our clients the choice to pick their own funds. This helps them meet their own climate-related objectives, and their appetite for risk and return.

We take a long-term approach to the consideration of climate-related risks and opportunities. As well as giving our clients a choice of funds, we engage with Fund Managers. And we focus on those managers where we have the largest control – our investment solutions.

To manage the long-term impact of our investments, we require the Fund Managers in our investment solutions to set clear goals to reduce carbon emissions. We review the funds against these goals and will challenge if a target is missed, or appears to be at a significant risk of being missed. For Investment Pathways we align with Fidelity's approach to integrating climate-related risks and opportunities. These are covered in the **Asset Manager Report.**

This should mean the funds align with reducing real world emissions, and if this is the case, we would expect them to be more resilient in the face of climate change. This approach could also help us increase our exposure to climate-related opportunities, which may help to improve investment performance.

For the funds we make available, we will challenge anomalies. For example, a fund with high carbon emissions that invests in developed markets would be unusual. But we would expect higher carbon emissions for a fund investing in developing markets.

## THE INFORMATION WE PROVIDE

We provide financial and climate-related information about the funds we offer. These can be found in our **product reports.**

FIL Life produces our entity report and the product reports. Here's a summary of what's included.

| Fidelity Business Unit | Description | Entity Level report | Fund or Product level reports | Business Operations |
|---|---|---|---|---|
| **Asset Owner – FIL Life** | This is our UK life insurance business. It provides unit-linked pension products that enable members of company pension schemes in the UK to save for their retirement.<br><br>Investments are made into life funds, which invest in underlying funds. These are managed by Fidelity International or other selected Fund Managers and insurers. | ✔ This report | ✔ You can find climate reports for some of our publicly available UK products* **here**.<br><br>These are required by UK regulation. | FIL Life outsources its operations within Fidelity International.<br><br>Fidelity International's approach to climate-related risks and opportunities is considered in this companion TCFD report **here**. |

* Cash funds are excluded

## THE SCOPE OF THIS REPORT

This report provides financial and climate-related information about the funds we offer, and the FIL Life business.

A summary of in-scope and out-of-scope plans is provided below. All figures are as of 31 December 2023 unless stated otherwise.

| Fidelity Business Unit | |
|---|---|
| **IN SCOPE** | **OUT OF SCOPE** |
| **These FIL Life pension plans, collectively referred to as contract-based plans, are included.**<br><br>**Group Personal Pensions – GPPs (£9.5bn)**<br>GPPs are a type of defined contribution pension which some employers offer to their workers. As with other types of defined contribution schemes, members in a GPP build up a personal pension pot. They then convert it into an income at retirement. These plans are contract-based and our contract is with the member.<br><br>**Stakeholder Pension plans – SHPs (£2.9bn)**<br>SHPs are a type of defined contribution pension. They have low and flexible minimum contributions and capped charges. SHPs offer a default investment strategy for members who prefer not to choose their own funds. Some employers offer SHPs, but you can also start one yourself. These plans are contract-based and our contract is with the member.<br><br>**Buy-Out Plans (£2.1bn)**<br>Buy-Out plans were used by both employers and workers to transfer pension benefits built up in a workplace pension to an individual policy. This was usually after the worker had left the employer's service or if the scheme was winding up. No further contributions can be made to a Buy-Out plan. These plans are contract-based and our contract is with the member. | **These schemes are not included because the legal and fiduciary duty rests with the Trustees. They are governed under the Department of Work and Pensions (DWP) and have their own governance, strategy, risk management and metrics in place. They may provide their own TCFD reporting.**<br><br>**Occupational Pension Schemes, Additional Voluntary Contribution schemes - AVCs (£19.9bn)**<br>Occupational pension schemes are schemes typically set up with a trust-based structure.<br>AVC schemes were introduced to allow members of workplace pension schemes to build up additional pension benefits. AVC schemes may be offered by employers and the Board of Trustees of the employer's pension scheme. These arrangements are usually linked to a defined benefit arrangement.<br><br>**Master Trust Scheme (£7.1bn)**<br>The Master Trust is an occupational pension scheme for multiple employers. It's governed by a Board of Trustees and offers a range of investment options for members. You can read the **Master Trust TCFD report here**.<br><br>**Other non-UK entities** such as FIL Life Insurance (Ireland) DAC are also out of scope as the regulations covered in this report apply to the UK only. |

| Business operations | |
|---|---|
| **IN SCOPE** | **OUT OF SCOPE** |
| **The impact of climate change on FIL Life's business, for example regulations, products, strategy and reputation is included.** | Operations outsourced to other Fidelity International entities are not included, such as offices and technology systems, and operations delegated to FPM. We also haven't included third parties, for example, those that administer Defined Benefits schemes.<br><br>The Asset Manager report contains information about the Group's operational emissions and our plan for net zero by 2030. 'Operational emissions' are the emissions that come from the day-to-day running of the business. |

# Understanding this climate report

## WHAT ARE GREENHOUSE GAS (GHG) EMISSIONS?

Greenhouse Gases – GHGs – are gases that contribute to global warming. They get their name because they trap heat and energy from the sun, just like a glass greenhouse.

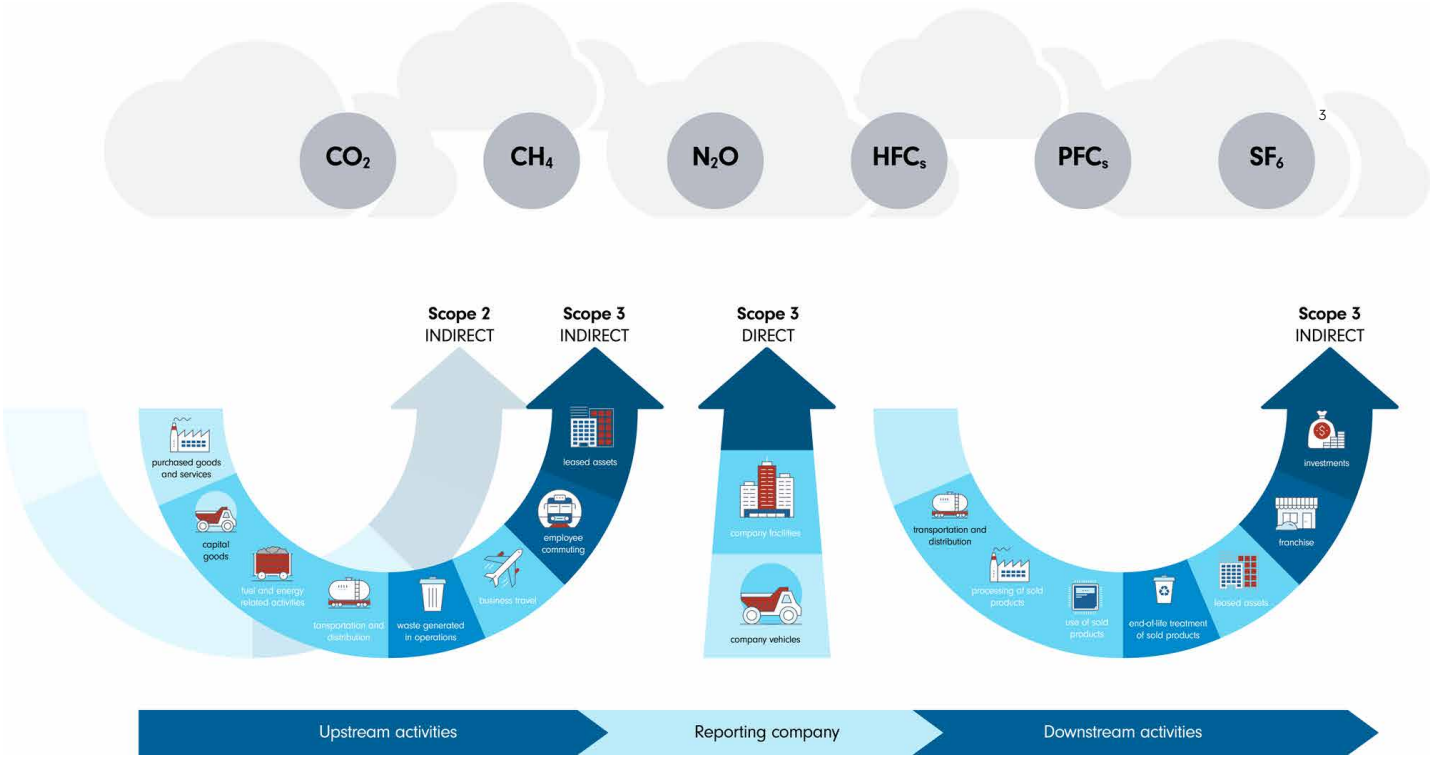
GHG emissions don't just come from carbon dioxide. They can also come from other gases, such as methane, and nitrous oxide.

The GHG Protocol is a widely used tool for measuring and managing these gases. It puts the sources of GHG emissions into three scopes:

- **Scope 1 emissions**
  These come from equipment **directly owned or controlled** by an organisation. It includes all the fuel the company has burned on site using boilers, furnaces, vehicles or other machinery.
- **Scope 2 emissions**
  These are from **bought** electricity heat, steam and cooling.
- **Scope 3 emissions**
  These are all other **indirect** emissions that can be generated at any stage of a company's product lifecycle. They include:

↗ **Upstream emissions** – these are produced before the product or service is sold. They could be released by getting raw materials out of the ground, or transporting them.

↘ **Downstream emissions** – these are produced when a product is sold, stored, used or disposed of.




[3] **GHG Protocol** on page 5 of link

## OUR APPROACH TO A LOWER CARBON ECONOMY

As an Asset Owner, our greatest exposure to climate risks and opportunities comes from the investments we offer – the 'financed emissions'. We measure them by calculating how much of our members' money is invested in funds that invest in companies. Then we measure the GHG emissions of each of these companies.

'Financed Scope 3 emissions' come under Category 15 of the GHG Protocol. This is a category that is material for us as a life insurance business offering pension products.

## INVESTMENT SOLUTIONS

Our FutureWise solution makes up 42% of the £14.5bn of assets that are in-scope for this report[4] . We have the most control over FutureWise, including how it's designed, how the assets are allocated, and which Fund Managers manage the investment strategy. We've set a target to reduce our financed Scope 1 & 2 emissions on a GHG per £million of Assets under Management. This is called the 'carbon footprint'.

In order to try to limit global warming to 1.5°, the global economy needs to move towards 'net zero' as soon as possible. It will take many more governmental and corporate efforts to support this.

For our FutureWise solutions, our targets are to:

- Halve our Scope 1 and 2 carbon footprint by 2030, from a 2020 baseline
- Reach net zero carbon footprint by 2050.

Net zero means the amount of GHG emissions produced is balanced by the amount removed from the atmosphere. Removing GHG emissions can happen naturally, for example, through forests and mangroves that store Greenhouse Gases. Governments and society need to protect and rejuvenate our planet's natural systems.

By setting a 2050 net zero target for FutureWise, we aim to reduce the transition risks our clients could face from climate change policies. We also aim – through actions taken by the Asset Manager, engagement, for example – to support the reduction of emissions in the real economy.

## KEY TYPES OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

### Transition risks and opportunities

These risks are caused by technology changes, as well as changes in regulation, policy, and the law. All of these will influence the speed and timing of each scenario, and create risks as the economy moves towards lower carbon. Depending on the region, or type of business activity, transition risks could affect us in the short, medium and longer-term.

The changes will also create climate-related opportunities, such as resource efficiency, energy sourcing, products and services, new markets and resilience.

FIL Life is affected by transition risks, with both the investments we offer and our investment solutions. This could include failing to comply with regulatory changes, or not keeping pace with changing products and customer preferences. We always aim to consider these risks and opportunities.

### Physical risks

As our planet continues to warm, it is widely accepted that there will be a growing impact on the economy. Fidelity's business operations and our clients' investments could be affected. Physical risks include droughts, wildfire hazards, severe weather patterns, shifts in rainfall patterns and sea level changes.

These types of risks are expected to grow over the medium and longer term and likely to be particularly severe if we aren't on track towards, or if we delay, a move to a lower carbon economy.

For our FutureWise solution these risks are considered as part of the investment process. More information on how this is done is available in the **Risk Management** section.


[4] The total assets of FutureWise of both in-scope and out of scope funds is £10.5bn. This is a quarter of all our Assets under Management across all our client types - £41.5bn.

## CLIMATE SCENARIOS

We have considered two climate scenarios in this report covering investments. Both scenarios have been created by The Network for Greening the Financial System (NGFS). The NGFS was set up to help financial services organisations support the move to a more sustainable economy.

These scenarios are examples of what might happen in the future based on particular assumptions. They are not predictions or targets.

With an orderly transition, transition risks are felt heavily in the short term as companies adjust to the shift to a net zero economy.

In a hothouse scenario, the long-term impacts of not transitioning to a low carbon economy play out. This means that physical risks are more prevalent. These risks influence the value of public equities, which is where FIL Life has the most exposure. Because of this, it will be crucial to use the tools available to manage and mitigate these risks where possible.

For this report, we're only able to provide a qualitative scenario analysis. This is an interpretation, or description, of how climate change could affect each industry. We're working with our data provider to be able to provide quantitative – or measurable – scenario analyses in the future.

| **Orderly transition**<br>The world has started to prepare for climate change. | **Hothouse world – or 'business as usual'**<br>The world has taken no action to prepare for climate change. |
|---|---|
| ■ Climate policies are introduced now, and slowly become stricter. We have more time to make changes, more efficiently.<br>■ These policy changes mean we can reach global net zero $CO_2$ emissions in around 2050.<br>■ It's more likely that we'll be able to limit global warming to below 2°C than in a 'hothouse world' scenario. | ■ There are no new policies introduced to tackle climate change.<br>■ Current commitments to preventing climate change are not met. Emissions and global temperatures will continue to rise.<br>■ We'll see high impact of physical risks. Changes to the economy could affect jobs and ways of working. |

## OUR CLIMATE AMBITIONS AND TARGETS

We have set the following commitments for FutureWise:

- We aim to halve the Scope 1 and 2 carbon footprint (intensity) by 2030, from a 2020 baseline
- We aim to achieve net-zero by 2050

Currently, the scope and quality of investment data means that we can't integrate Scope 3 emissions into our targets. We keep this under review, and particularly the overall impact of managing risk to portfolios in sectors such as finance, where Scope 3 is important.

## BUSINESS OPERATIONS

These are shared with the wider Fidelity group.

The Fidelity Group has committed to achieve net zero emissions across Fidelity's business operations by 2030. This will include:

- Scope 1 and 2, and operational control Scope 3 categories. There's more information on Scope 3 categories in the **Asset Manager report.**

By 2024, from a baseline of 2019, we aim to achieve:

- 25% reduction in carbon emissions (Scope 1 and 2, and operational control Scope 3 - market). Market-based means the emissions measured are from electricity that has been bought. This could include, for example, green energy certificates for renewables.
- 25% reduction in energy consumption – electricity + gas
- 50% reduction in air travel carbon emissions.

To date we have focused our targets on areas where we have operational control. We plan to expand to cover other material scopes.

For more information on our commitments please refer to our latest **Corporate Sustainability Report**[5].

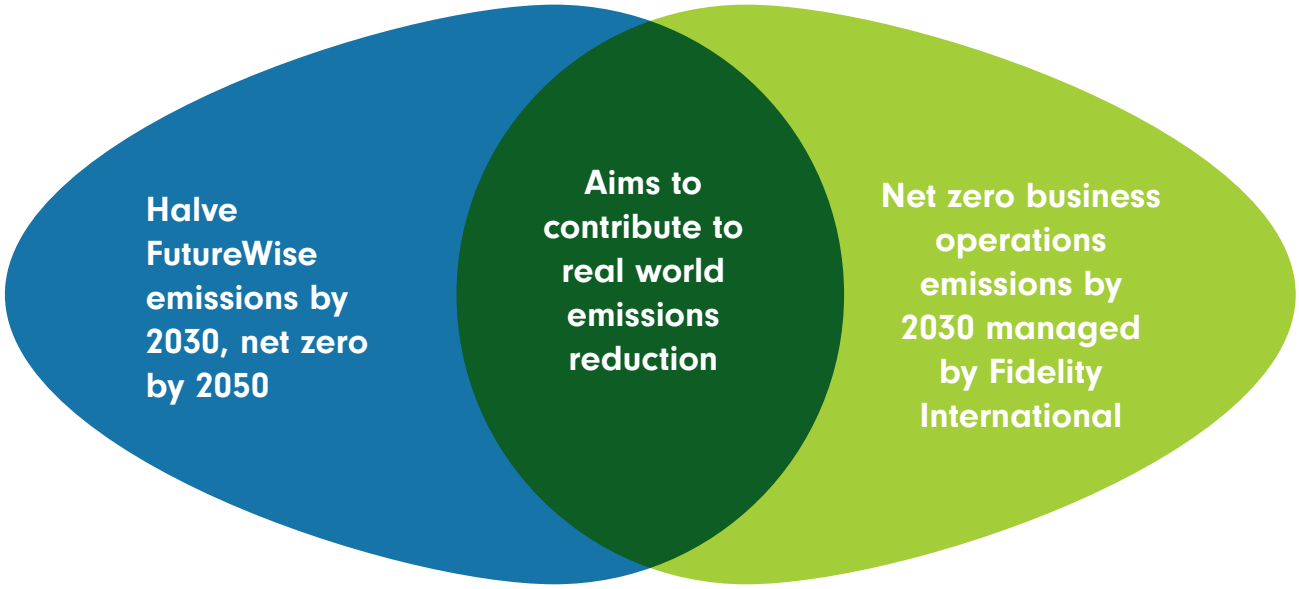
[5] Fidelity's Investment target covers ~35% of AUM. Business Operations covers Scope 1,2,3 (excluding investments). We are prioritising operational control categories of Scope 3.

## PROGRESS ON CLIMATE TARGETS

**Business operations:**

Since 2019 Fidelity has reduced business operational emissions by 66%. These are emissions that come from the energy we buy.

For more information about our ambitions, and our targets for Scopes 1, 2, and 3 emissions, read the **Asset Manager climate report**, and our latest **Corporate Sustainability Report**.




*Our target for investment-related emissions was initiated in 2020 and covers our financed carbon emissions intensity of our equity and corporate bond holdings (carbon footprint). It includes net zero for FutureWise by 2050. The ambition represents what was possible at the time of making the commitments, such as data limitations for the availability of sovereign debt, private assets and the quality of Scope 3 emissions data for investments.

## OUR CLIMATE APPROACH ALIGNED WITH THE TCFD FRAMEWORK

The Task Force on Climate-Related Financial Disclosures recommends disclosures across four pillars – Governance, Strategy, Risk Management, Metrics & Targets.

You can find more detail on each of these sections later in the report.

| TCFD Pillars | Fidelity's Approach |
|---|---|
| **Governance**<br>**pages a-b**<br><br>Governance describes how our senior leadership team oversees, assesses, and manages climate-related risks and opportunities. It helps to ensure we are prepared to address and adapt to the impacts and opportunities. | **Where referring to the Board, this means the FIL Life Board:**<br><br>■ The Board is responsible for setting, considering and managing FIL Life's strategy for climate-related risks and opportunities. The CEO is responsible for executing it. Both the Board and the CEO can delegate certain activities, but even when delegating, they retain overall responsibility.<br><br>■ The Board is also responsible for implementing Fidelity International's Enterprise Risk Management (ERM) framework. The ERM Framework applies to FIL Life and sets out the guiding principles and global minimum control requirements for the management of risks. This includes climate-related risks – both the transition risks to a low carbon economy, **and** the physical risks of climate change.<br><br>■ The Board has created a governance structure. This provides oversight and direction through designated committees and forums. It includes the Audit, Risk and Compliance Committee.<br><br>■ The CEO is supported by various management groups and forums in fulfilling their duties. This includes implementing climate change risks and opportunities, reviewing the execution of FIL Life Sustainable Investing policies and escalating relevant matters to the Board. |

| TCFD Pillars | Fidelity's Approach |
|---|---|
| **Strategy**<br>**pages c-d**<br><br>Strategy shows our understanding of how climate can impact our business. We identify and assess the risks and opportunities and embed it into our strategy.<br><br>We describe our plans to adapt, and look at how climate change could impact the value of our clients' investments. We consider different future situations. | ■ FIL Life recognises that climate change will bring risks and opportunities that will impact the value of members' pension savings. We factor this into the investment solutions we make available and in our Sustainable Investing Policy.<br><br>■ Both physical and transitional risks can have a negative effect on the value of the funds we make available to members. However, climate change will also come with opportunities for investments.<br><br>**Our Climate Approach**<br><br>1. **Integration into solutions –** we aim to identify and integrate material climate risks and opportunities into our solutions through the choice of Fund Managers. FutureWise uses a range of funds which all integrate ESG through tilts and exclusions. For Investment Pathways it involves adopting an approach that's in line with the approach set out in our Asset Manager's report.<br><br>2. **Engagement –** we view engagement as important and engage with the managers used within our investment solutions. For the wider fund range, we require all Fund Managers to have an appropriate shareholder engagement policy in place. They must also outline how they adhere to that documented policy.<br><br>3. **FIL Life will review** the stewardship and engagement policies of all the Fund Managers for our contract-based schemes in line with the requirements of the Shareholder Rights Directive (SRD II).<br><br>4. **Choices and reporting** – we support members by offering a range of funds that consider climate-related risks and opportunities. We also provide reporting and information to help them make informed decisions. These include outlines of our approach, TCFD product reports and carbon intensity data on Fund Factsheets.<br><br>We have qualitatively considered the impact of scenario analysis under two different scenarios – an 'orderly' transition and a 'hothouse' transition. With an orderly transition, transition risks are felt heavily in the short term as companies adjust to the shift to a net zero economy. Under a hothouse scenario, the long-term impacts of not taking action are usually more significant.<br><br>These primarily influence the value of public equities, which is the asset class where FIL Life has the most exposure. It will be crucial to continue to review the potential development of these risks. We'll engage with the Fund Managers of our solutions about how these can be managed and mitigated. |

| TCFD Pillars | Fidelity's Approach |
|---|---|
| **Risk Management**<br>**pages e-f**<br><br>Risk management describes how and what we are doing to identify, assess and manage climate risks. This covers both our business operations and our clients' investments.<br><br>It describes the framework, processes and their oversight checks and balances. | We've integrated Environmental, Social and Governance (ESG) risks (including climate risks) into our Enterprise Risk Management (ERM) framework.<br>This ensures we have a common approach to identify, assess, mitigate, manage and report risks across the organisation.<br><br>It includes risks that could cause harm to the organisation, or to our clients' investments. These risks may significantly affect member outcomes, or FIL Life's strategic goals.<br><br>We have a '3 Lines of Defence' approach to managing climate-related risks (as defined in the '**Risk Management**' section). This ensures clear responsibility for risk management across Business and Operations, Investment Management, Risk and Compliance, internal audit, and external assurance[6].<br><br>**Investments**<br><br>Climate-related risks are considered by the 1st and 2nd Lines of Defence.<br><br>Under the 1st Line of Defence – where risk 'owners' identify, manage, monitor, and mitigate risks that come from their business or processes – consideration may include:<br><br>**a)** A review of the level of carbon emissions (among other factors) of the default strategy over time. This ensures it's being managed in adherence to our net zero goals and any other climate-related targets.<br><br>**b)** Discussion of temperature scores and metrics in our WI Solutions Forum attended by individuals across the business. This includes members from 1st line and 2nd Lines of Defence.<br><br>**c)** Engagement with Fund Managers used within our solutions to better understand their exposure to climate-related risks, and to encourage disclosure and adoption of an appropriate strategic response.<br><br>The 2nd Line of Defence provides advice, policies, standards and objectives, and independent oversight of performance and risk management.<br><br>**FIL Life Business**<br><br>FIL Life is fully integrated into the Fidelity framework for managing ESG and climate risks. The potential impact of these risks on FIL Life is considered and assessed in regular reporting to the Board and in its Own Risk and Solvency Assessment (ORSA). The purpose of the ORSA is to ensure that FIL Life is sufficiently resilient to meet the risks it faces. |

[6] This report has not been externally assured.

| TCFD Pillars | Fidelity's Approach |
| --- | --- |
| **Metrics & Targets pages f-g**<br><br>This describes the metrics and targets we use to assess and manage climate-related risks and opportunities.<br><br>We report on whether we are on track to meet the targets. | **Our key climate targets:**<br><br>For FutureWise, we've set the following targets :<br><br>■ Achieve net zero by 2050.<br><br>■ Reduce the carbon footprint ($tCO_2$/Scope(1+2)/£m invested of the strategy by 50% by 2030 (using a 2020 baseline).<br><br>This covers 42% of AUM. Data limitations and timing mean this covers our publicly listed corporate debt and equities. We will continue to review this and seek to expand this as data quality improves.<br><br>You can find out more about the metrics we monitor in the **Metrics and Targets** section. |

# Governance

## THE FIL LIFE BOARD AND THE FIL GROUP

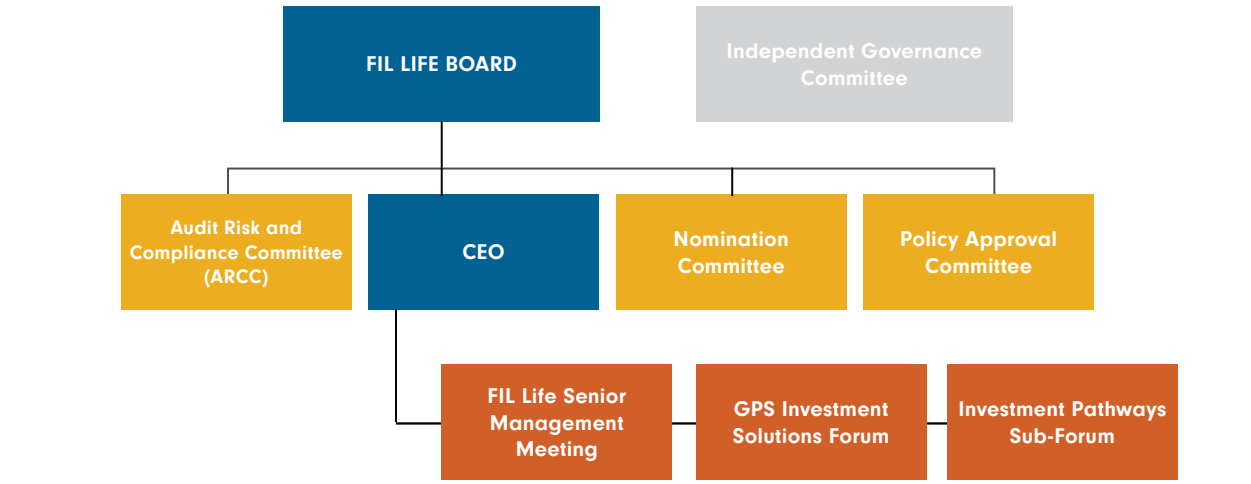
**FIL Life is a subsidiary entity of FIL Limited, which is the ultimate holding company of Fidelity International.**

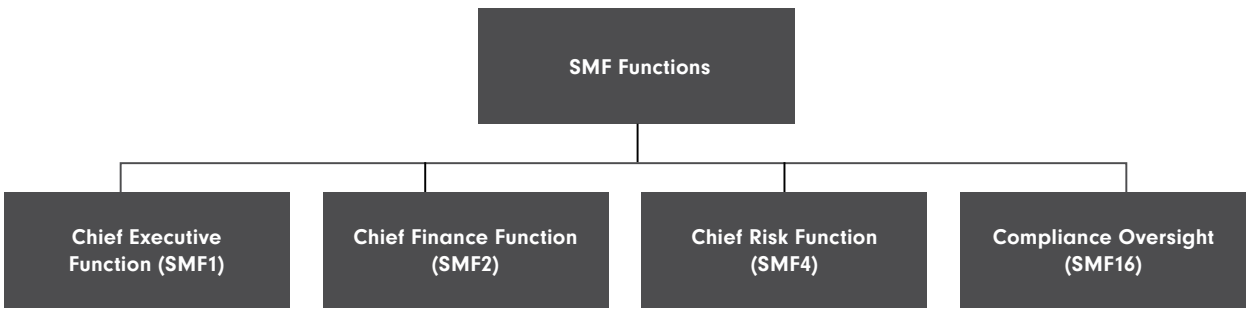
In order for FIL Life to operate as a sole life insurance company in the UK, it must have its own governance.

The FIL Life Board can escalate matters to the FIL Limited Board. For regulatory purposes, a governance map is reviewed on a quarterly basis.

## OUR CLIMATE GOVERNANCE FRAMEWORK

This is a subset of the full governance structure



## THE FIL LIFE BOARD

As of 31 December 2023, the FIL Life Board was made up of seven directors. Out of those seven, two are independent non-executive Directors and five are executive Directors.

We believe the Board is appropriately qualified to manage the risks of the organisation, including climate risk. Board members receive ad-hoc training on climate-related matters, and this is reviewed at each meeting.

The skill of the Board is also considered by the nomination committee as part of the selection of candidates. This includes their understanding of climate-related matters.

### The Board's responsibilities

The Board is responsible for setting FIL Life's overall strategy and accountable for the oversight of FIL Life, with ultimate responsibility for risk management in the Company. This includes, but isn't limited to, the oversight and monitoring of FIL Life's overall risk profile. It's the Board's responsibility to get regular assurance that the risk management system is functioning effectively. It's also responsible for making sure that significant risks are being managed in line with policy.

It may delegate some authority for certain matters to sub-committees or management. However, there are mechanisms in place to document and monitor any delegated functions. And the Board remains responsible, even if it delegates some of its activities.

The Board meets quarterly with additional meetings as required. The CEO is responsible for implementing and executing the business strategy of the organisation, including the climate strategy. The CEO reports to the Board and is supported by the management groups and forums to implement and deliver the climate strategy. This includes how climate-related risks and opportunities are considered by the business.

**The Board's mandate includes:**

- Approving FIL Life's strategic aims and objectives, including our strategic approach to climate-related financial risks
- Approving all company policies, and adopting any Group policies (or material changes) that might apply
- Approving the Own Risk and Solvency Assessment (ORSA), including financial risks from climate change
- The oversight of material outsourcing arrangements. This includes the outsourcing of operations to FIL Pensions Management (FPM) under Fidelity International.

Climate change is a standing agenda item for the Board. It's also one of the key initiatives set by the FIL Life Board.

In addition, annual strategy days provide opportunities to discuss the Board's wider goals and strategy, as well as recent developments and topics of interest. In 2023, climate change was a key part of these discussions.

**Risks and opportunities:**

The Board sets, oversees and monitors the risk profile of FIL Life. It also monitors the application of the Enterprise Risk Management framework set out by the Fidelity International Board. The Board sets the Group's risk tolerance for ESG-related risk and exercises the oversight of ESG. This includes environmental and climate-related risks.

The management of climate-related risk within the various parts of the FIL Group is interconnected. Therefore, the Board feels it is appropriate to place some reliance for identifying and monitoring these risks onto the Group Corporate Sustainability Officer. The officer is supported by management committees.

The FIL Life Board is accountable for the delivery of our ERM framework. It ensures we have the appropriate governance, structures, and internal controls to keep us compliant with rules, laws, regulations, and our own policies. It also ensures that our policies protect our clients and customers.

It has created a governance structure to provide oversight and direction to the business. This takes place through delegated authorities to designated committees and forums.

### Board reporting

The Board is supported by sub-committees and management groups, as well as key control functions. It receives quarterly risk reporting which includes information on how FIL Life is affected by climate-related and ESG risks. These risks are included in regular reports, but a standing agenda item at Board meetings provides scope for specific briefings.

Relevant committees inform the FIL Life Board on the risk profile, including ESG and climate-related risk, and the effectiveness of the risk management framework. The FIL Life Board also receives ESG matters escalated for consideration from the FIL Life committees and the CEO.

The CEO participates and chairs forums, and reports relevant information to the FIL Life Board. FIL Life has been subject to the FCA's Senior Managers and Certification Regime (SMCR) since 10 December 2018. Under the SMCR, FIL Life has Senior Management Functions (SMF) in place which help with the running of the organisation.

SMFs with specific roles related to climate change are listed below. SMF holders report to the Board, and the CEO and CFO are also members of the FIL Life Board.

| Ref | Senior Management Function | Role Allocation | Responsibilities relating to climate change |
|---|---|---|---|
| **SMF 1** | Chief Executive Function | Chief Executive Function | Responsible for the day-to-day running of the business including climate. |
| **SMF 2** | Chief Finance Function | UK Chief Finance Function | Responsible for identifying and managing the financial risks associated with climate change. |
| **SMF 4** | Chief Risk Function | Chief Risk Function | Responsible for company-wide risk management frameworks, including risks relating to climate change, operational, strategic and reputational.<br><br>The Chief Risk Function is also responsible for the performance of the ORSA. |
| **SMF 16** | Compliance Oversight | Business Compliance Director | Responsible for oversight of compliance with our regulatory obligations. This includes the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). |

**FIL Life's Committees**

The board is supported by the Chief Executive Officer (CEO), the Audit Risk and Compliance Committee (ARCC), the Nomination Committee, and the Policy Approval Committee. Along with the SMF holders, they help the Board fulfil its duties in relation to climate change.

↗ **Audit Risk and Compliance Committee (ARCC)**
Responsible for reviewing and approving FIL Life's climate-related risk management processes. Climate change is a standing agenda item, and the committee meets quarterly.

↗ **Nomination Committee**
Responsible for ensuring the right balance of skills on the Board. This includes an adequate understanding of climate and ESG risks.
The committee meets when there are upcoming changes to the FIL Life Board.

↗ **Policy Approval Committee**
Responsible for reviewing FIL Life's Sustainable Investing policy and checking for consistency across all other policies. It recommends the approval of the policy to the FIL Life Board. The committee meets annually and at other times if required.

The Board receives regular reporting from the Committees.

**The Independent Governance Committee (IGC)** meets quarterly. It's run separately and acts independently. As a result, there is no management reporting line into the FIL Life Board or any other FIL Group Board or Committee.

It's responsible for assessing the value for money of FIL Life's Group Personal and Stakeholder Pension Plans.

Where FIL Life has an investment strategy, or it makes investment decisions which could have a material impact on the members, the IGC will consider and report on:

- The adequacy and quality of the policy in relation to ESG including climate, for both financial and non-financial matters
- The adequacy and quality of FIL Life's Sustainable Investing policy in relation to stewardship
- How these are considered in FIL Life's investment strategy and investment decision making.

It will report on the extent to which FIL Life has implemented policies in relation to these matters. And where a policy is not present, the IGC will consider the reasons why.

Based on its findings it will produce an annual report. This is made available first to FIL Life for consideration, and then to the relevant members, their employers and/or Investment Pathway Investors.

## THE ROLE OF SENIOR MANAGEMENT

The Board has delegated the day-to-day running of FIL Life to the Chief Executive Officer (CEO). This includes strategy and climate. The CEO is supported by various management groups.

→ **The FIL Life Senior Managers' Meeting** – supports the CEO fulfilling their duties. This includes implementing climate change risk and opportunities, and escalating relevant matters to the Board. Membership includes senior managers, although other participants may be asked to attend from time to time.

→ **The GPS Investment Solutions Forum (GPS ISF)** – responsible for reviewing the execution of the FIL Life Sustainable Investing Policy. It is also a delegated forum from the CEO for oversight of FutureWise's design and climate targets.

Senior managers have created risk management systems and controls to support strategy. These include managing climate-related objectives, controls and risk structures, and integrating them with our business strategy.

## POLICIES:

Our climate approach is embedded into our policies. These policies help guide us by describing our courses of action, and setting out our principles and approach to climate change. They give detailed descriptions of our commitments, expectations, processes and plans to adapt.

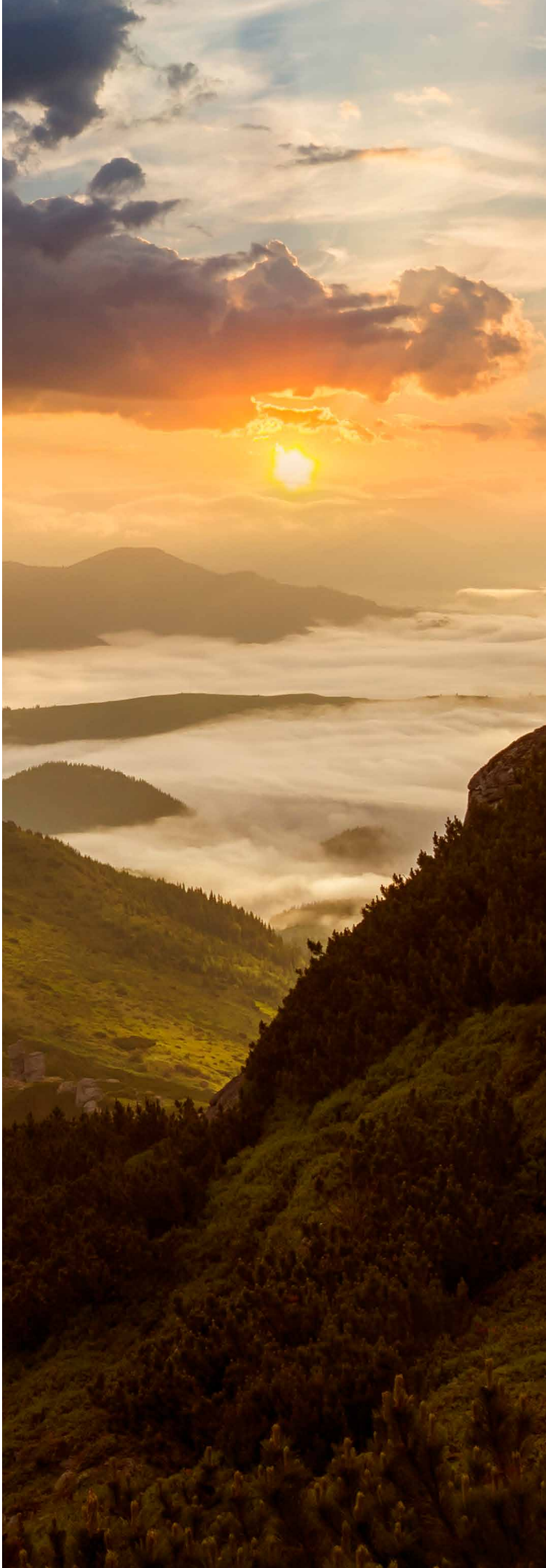
## THE RELEVANT POLICIES ARE:

**Sustainable Investing Policy**

This outlines our guiding principles. They set out the minimum thresholds for sustainable investing, and our climate targets.

**Enterprise Risk Management Policy**

The ERM policy set out the guiding principles and global minimum controls for the management of Operational, Strategic, Investment, Financial and ESG risks.



# Strategy

## A SUMMARY OF OUR STRATEGY

A transition to a lower carbon economy will present a range of risks and opportunities. Our strategy sets out more information on these risks and impacts, and how we integrate them when constructing solutions for our clients, and within the fund range we offer.

## HOW WE IDENTIFY THE FINANCIAL RISKS OF CLIMATE CHANGE

FIL Life aims to integrate the assessment of climate-related financial risks into its ORSA process. This allows us to track our exposure and identify where we may be vulnerable. It also helps us understand the effects of these risks, including the short, medium and long-term financial and capital impact.

We performed scenario analysis so we could better understand the financial risks of climate change. The results have helped inform the resilience of FIL Life's climate strategy.

## INVESTMENTS AND PRODUCTS

The emissions associated with investments far outweigh those of the Group's operational emissions. These include emissions from Fidelity's offices and business travel. We believe that an investment process which integrates sustainable investing factors is likely to lead to improved risk-adjusted returns over the long term. Specific opportunities come from developing and promoting products and services that respond to clients' appetites for climate-friendly, sustainable investments. This is why we incorporate climate change considerations into our existing investment solutions. But we also ensure that our investment fund offerings adapt so we can meet our clients' demand for sustainable investments.

The target for FutureWise is aligned to Fidelity's target of halving emissions in its investment portfolio by 2030 and achieving net zero by 2050. The investment portfolio target is separate and different to Fidelity's target of achieving net zero across its own corporate operations.

## BUSINESS OPERATIONS

FIL Life does not have any premises or directly employed staff and so our direct carbon footprint is limited. Therefore, as part of our climate strategy, we also consider the carbon footprint of our supply chain. This includes our main supplier, FIL Pensions Management, a wholly owned subsidiary of FIL Limited Group.

Our plan to transition to net zero sits within the framework of the wider FIL Limited Group. Fidelity International's 2023 Sustainable Investing Report sets out the Group's net zero goal for business operations.

The Group's path to net zero will prioritise avoiding and reducing the use of carbon over substituting and removing it. This supports meaningful change, and Fidelity's corporate sustainability policies support this strategy.

## KEY MILESTONES

We have made notable progress on our plan.

### Investments

- **We set and reviewed our climate targets**

FIL Life aims to make its FutureWise strategy net zero by 2050 and halve emissions by 2030 from a 2020 baseline year. The strategy also aims to have a lower carbon footprint than the broader market in which it invests.

- **We integrated the consideration of climate-related risks and opportunities into FutureWise**

We have done this through integrating the Fund Manager's proprietary ESG rating framework. This includes climate change considerations and tilts towards and away from companies partly based on these factors. FutureWise also has a set of exclusions in place. It excludes companies that derive more than 5% of their revenue from certain carbon-heavy activies such as thermal coal and oil sands. It also excludes violators of the United Nations Global Compact Principles[7] (which include principles on environmental challenges, environmental responsibility and the development of environmentally-friendly technologies).

- **We reviewed all funds used within our investment solutions**

This included both FutureWise and Investment Pathways. We did this to establish whether Fund Managers are incorporating climate-related risks and opportunities into their investment process. If this is not being considered, we needed to establish an appropriate reason why.

Climate risks and opportunities are integrated into FutureWise. The Investment Pathway funds integrate climate -elated risks and opportunities to a varying degree. They do align with our company-wide approach as outlined in the **Asset Manager Report.**

- **We increased transparency for members**

We did this by making more information available to members. **The TCFD product reports** are an example.

## FIL LIFE BUSINESS

Climate-related risks and opportunities have been incorporated into the business governance process. We've outlined this in the **Governance** section. Our approach continues to evolve and develop.

[7] As assessed by our Fund Managers

## KEY TYPES OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

In the introduction to this report, we laid out how the future global approach towards the transition to net zero will affect us. The timing and size of the transition, and the physical risks we face, will also be affected by how well prepared the companies we invest in are.

Both FIL Life's business operations, and the investments we offer are exposed to climate-related physical risks, and transition risks and opportunities.

### Physical risks and opportunities

The Intergovernmental Panel on Climate Change (IPCC) scenarios highlight acute physical risks associated with the impacts of climate change. These are likely to increase in frequency and severity.

- They have the potential to impact the businesses the Fund Managers invest in on behalf of our clients. They could affect the physical assets and supply chains.
- It's likely that the timing and severity of these impacts will be influenced by how quickly action is taken to mitigate the causes of climate change.

The longer meaningful action is delayed, the larger the eventual impacts are likely to be.

### Transition risks and opportunities

The actions taken to mitigate the impacts of climate change could create transition risks and opportunities for our business. This could be in the form of policies, regulations, and technological innovation.

- There could be an increase in costs associated with risk management. Disclosure requirements could increase.
- Our stakeholders expect us to uphold high standards within our own business. If we don't meet these standards, we could face regulatory and reputational risks. A strong performance of our investment solutions, particularly FutureWise, could enhance our reputation with key stakeholders. It could also help to reinforce existing client relationships.
- Transition risks and opportunities could potentially disrupt the value of investments. They could influence revenue, costs, competitive advantage and asset prices.

We consider these climate-related risks and opportunities over our definitions of:

- **Short-term – 0-3 years**
- **Medium-term – more than 3 years and less than 10**
- **Long-term – greater than 10 years.**

The impacts are discussed below. The content is divided into two sections and covers the FIL Life business, and the investments we make available for our members.

## FIL LIFE BUSINESS

The table below provides a summary of the key sources of climate-related risks and opportunities for FIL Life. It also shows the policies and measures we've put in place to help mitigate their impacts.

Type of climate risk: **transition risks and opportunities**

| Risk or opportunity<br>Time horizon | Potential financial impacts | Actions - how we manage risk / maximise opportunities |
|---|---|---|
| Risk<br>Short to medium-term | ■ **Operational – regulatory, policy and legal**<br>■ Failure to meet global regulatory reporting because of an increasing number and complexity of requirements.<br>■ Alternatively, not reporting accurately as compliance thresholds rise.<br>■ **Increased costs or regulatory fines.** | ■ Regulatory horizon scanning.<br>■ Compliance with regulations, risk management processes and control frameworks.<br>■ Planning for the future of our sustainability-related reporting as regulations increase in number, demands and complexity. |
| Risk and opportunity<br>Shorter-term | ■ **Product strategy, market demand and reduced revenues**<br>■ The market transition leads to changing demand for investment solutions. Client climate and financial fund targets are not met. This leads to a fall in revenue.<br>■ Alternatively, delivering different solutions could be an opportunity. We could attract clients searching for climate and financial outcomes.<br>■ **Higher or lower revenues.** | ■ Oversight on commitments and delivery.<br>■ Factoring in client needs, regulatory requirements and future market trends. |

Type of climate risk: **acute and chronic physical risks**

| **Risk or opportunity**<br>**Time horizon** | **Potential financial impacts** | **Actions - how we manage risk / maximise opportunities** |
|---|---|---|
| Risk<br>Medium-term | ■ **Reputational**<br>■ Missing organisational climate targets.<br>■ Clients feel misinformed about our green credentials.<br>■ **Increased costs or fines.** | ■ Suitable governance in place to monitor targets.<br>■ Processes in place to ensure that our communications comply with regulatory requirements. |
| Risk<br>Medium to long-term | ■ **Operational – service disruption, operational delivery and increased costs in our supply chain.**<br>■ Climate-related events can affect the corporate operations of our clients. This could include infrastructure and processes, and there could be pressure put on FIL Life to reduce fees or dis-invest.<br>■ **Potentially higher costs for FIL Life.** | ■ We rely on Fidelity International for our physical offices and sourcing of suppliers.<br>■ They ensure that physical climate risks are integrated into our business scenario analysis.<br>■ They are also responsible for managing our business continuity, as well as our Operational Resilience Framework and our approach to Health Safety & Sustainability (HSS).<br>■ Our location strategy and operating model may have to be adapted to mitigate risks. |

## INVESTMENTS

The funds and solutions we offer our clients are also exposed to climate-related risks and opportunities. We have most control over our investment solutions – FutureWise and Investment Pathways. This is where we aim to understand and manage the risks to which our clients may be exposed.

For all funds and strategies in the Group Personal Pension, Stakeholder Pension and the Buy-Out plans, we've produced **TCFD product reports.** They provide metrics about the climate impact of each fund to help our clients make informed decisions.

In this section we consider how climate-related risks and opportunities could affect our investment solutions, and the funds that are available to our clients and their members.

Type of climate risk: **transition risks and opportunities**

| Risk or opportunity<br>Time horizon | Potential financial impacts | Actions - how we manage risk / maximise opportunities |
|---|---|---|
| Risk and opportunity<br>Medium- term | ■ **Regulatory, policy and legal**<br>■ Changes could impact the companies used by Fund Managers in our investment solutions, and the funds that are available to our clients.<br>■ There could be changes to demand for products and services.<br>■ **Reduced revenues and increased costs.** | ■ Climate-related risks and opportunities are considered by the Fund Managers used in our investment solutions.<br>■ Funds are selected based on the Manager's integration process.<br>■ Ongoing reviews ensure they remain suitable.<br>■ Full details are provided in the **Strategy** section.<br>■ We provide choice by offering a range of investments. This allows clients to select funds based on their own sustainability criteria. |
| Risk and opportunity<br>Short to medium-term | ■ **Technology**<br>■ Developments in technology can affect the cost and speed of moving to a lower carbon economy.<br>■ This will affect how competitive companies can be, and could change their position in the market.<br>■ For example renewable energy has become cheaper than fossil fuel-related power generation.<br>■ **A positive or negative effect on revenue and costs.** | ■ Climate-related risks and opportunities are considered by the Fund Managers used in our investment solutions.<br>■ Funds are selected based on the Manager's integration process.<br>■ Ongoing reviews ensure they remain suitable.<br>■ Full details are provided in the **Strategy** section.<br>■ We provide choice by offering a range of investments. This allows clients to select funds based on their own sustainability criteria |

Type of climate risk: **transition risks and opportunities continued**

| Risk or opportunity<br>Time horizon | Potential financial impacts | Actions - how we manage risk / maximise opportunities |
|---|---|---|
| Risk<br>Medium-term | ■ **Reputational**<br>■ A perception of not meeting our net zero climate commitments<br>■ Failing to deliver on our external climate commitments. This could cause reputational impact with clients, or with our investee companies who look to us to set an example.<br>■ **Increased costs and reduced revenues.** | ■ We manage progress towards meeting our net zero commitments for FutureWise by engaging with Fund Managers.<br>■ Our progress is monitored, and we receive quarterly updates.<br>■ Our annual TCFD reports will provide rationale and explanations if for any reason we can't meet our targets. |
| Risk and opportunity<br>Short to medium-term | ■ **Stewardship and engagement**<br>■ There could be an opportunity to influence external Fund Managers to better manage their climate-related risks.<br>■ **Reduced risk of regulatory fines and costs in the future.** | ■ We require all our Fund Managers to have an appropriate shareholder engagement policy in place. They must outline how they adhere to that documented policy.<br>■ FIL Life will review the stewardship and engagement policies of the Managers of the funds we make available for our contract-based schemes. |

Type of climate risk: **acute and chronic physical risks**

| Risk or opportunity<br>Time horizon | Potential financial impacts | Actions - how we manage risk / maximise opportunities |
|---|---|---|
| Long-term | ■ **Increased severity of weather patterns causing damage.**<br>■ This could be from drought, flooding, cyclones etc.[8]<br>■ Longer-term changes could affect companies invested in, or operated by the Fund Managers. Risk may be higher in areas more prone to sea level rises, or melting of permafrost. These changes could disrupt production and cause damage.<br>■ **Negative effects on revenues, and higher costs.** | ■ For Investment Pathways, there is a varying degree of integration of ESG. It will always depend on the objective. It's aligned with the Asset Manager's approach highlighted in their **TCFD report**.<br>■ For other funds, we've produced **TCFD product reports**. They provide metrics and scenario analyses about the climate impact of each fund. This should help our clients make informed decisions. |

## INVESTMENT STRATEGY

Our fiduciary role is to safeguard and enhance the investments we make available to our clients for the assets in-scope of this report. In the context of climate change, this means understanding the key risks and their potential impact on our clients' investments. It also means ensuring that issuers (of bonds, or equities, for example) integrate these material risks into their business strategy.

### Our climate approach

This is our approach to considering climate-related risks and opportunities within the investments we make available:

**1. Integration into investment solutions**

- Identifying material climate risks and opportunities
- Selecting funds and solutions that integrate these considerations into their investment process, starting with the funds used within FutureWise.

**2. Engagement**

- Engaging with the Fund Managers within the solutions we offer, and for the funds we make available to our clients.

**3. Fund choices and reporting**

- Enabling our clients to achieve their climate goals by offering fund choices.

[8] The Swiss Re natural catastrophe insured losses report shows a long term trend of increased insured losses in constant 202 prices from 1992-2022 **Swiss re Nat Cat report**

## INTEGRATION INTO SOLUTIONS

**FutureWise**

We consider climate-related risk and opportunities in FutureWise, from both the 'top-down' and the 'bottom-up'.

At the top are our targets to reduce emissions in our default strategy. Setting targets aims to help reduce the impact of climate change on members' investments.

From the 'bottom-up', we take certain factors into account when considering the appointment of Fund Managers. We assess how they incorporate the management of climate-related risks and opportunities. We also assess whether their approach is consistent with the fund, and with regulatory responsibilities.

We're supported by the Fidelity Asset Manager's investment specialists. You can read more about their approach to constructing solutions in the **Asset Manager report**.

**FIL Life has taken the following steps to integrate climate-related risks and opportunities into FutureWise:**

→ **Integrated sustainability and ESG rating methodologies**
FutureWise uses funds that embed Fidelity and BlackRock's proprietary ESG rating systems. These aim to tilt investments towards companies deemed more sustainable, and away from those deemed less sustainable.

It takes into account their approach to managing climate-related risks and opportunities as well as their decarbonisation strategies, relative to other companies in the same industries or sectors.

→ FutureWise uses funds that aim to have a lower carbon footprint than their broader market (parent) index. They are designed in line with FutureWise's net zero goals.

→ We exclude companies that derive more than 5% of their revenue from certain carbon-heavy activities. These include thermal coal and oil sands.

→ We exclude violators of the United Nations Global Compact Principles as assessed by our asset managers. These include principles about environmental challenges, environmental responsibility and the development of environmentally-friendly technologies.

**Investment Pathways**
Investment Pathways are designed with each Pathway objective in mind. The four Pathways and their objectives are set out below. Each uses Fidelity funds to deliver their objectives.

- **Pathway 1:** I have no plans to touch my money in the next 5 years
- **Pathway 2:** I plan to use my money to set up a guaranteed income (annuity) within the next 5 years
- **Pathway 3:** I plan to start taking my money as a long-term income within the next 5 years
- **Pathway 4:** I plan to take out all my money within the next 5 years

The solutions use funds that integrate ESG to varying degrees. They are aligned to the approach highlighted in the **Asset Manager report**.

## STEWARDSHIP AND ENGAGEMENT

FIL Life believes that the Fund Managers' engagement with the companies they invest in can contribute to these companies' long-term sustainability. They can create positive shareholder value by engaging on financially material ESG risks and opportunities.

Incorporating engagement into the investment decision-making process can lead to a deeper understanding of a company's approach to managing ESG issues. Subsequently, this can lead to better informed investment decisions. It can also be used to influence and drive sustainability outcomes and help reduce climate-related risks.

**Stewardship and engagement across FutureWise and Pathways**

To build the investment solutions, we combine individual strategies or funds to meet financial and non-financial objectives. This means that engagement typically occurs with the Managers of investment strategies or funds, rather than with the management of companies.

We engage with Fund Managers to better understand their approach to climate-related risks and opportunities. This approach forms a component of our Manager Ratings. The ratings are used by Fidelity's Solutions and Multi-Asset Team, and are part of their ongoing due diligence of external strategies.

It's important we understand the outcomes of an investment process. Of course we need to understand what the strategy has invested into, but the quality and details of how and why an investment is considered also matters.

**Stewardship and engagement across all our investments**

In line with obligations from the Shareholder Rights Directive (SRD II), all our Fund Managers are required to outline how they integrate shareholder engagement into their investment strategy, and how they monitor the investee companies. They must also have a shareholder engagement policy in place.

Further information on our Shareholder Engagement policy can be found **here**.

## FUND CHOICES AND REPORTING

We give our clients a range of options to help them align investment products to their climate goals. We have a choice of funds with a focus on sustainability, and these include climate-focused equity, and climate-focused bond funds.

All contract-based plans have access to five sustainable-themed funds. They provide choice across a number of asset classes (types of investment) and management styles.

## CLIMATE-RELATED SCENARIO ANALYSIS

Climate scenario analysis can help us estimate the potential impact of different climate-related scenarios on the value of an investment, and therefore members' retirement outcomes. The results can feed into ongoing strategy.

In the introduction, under **Climate Scenarios**, we outlined the most commonly recognised scenarios to help us assess how climate change can affect the investments for FIL Life.

**Quantitative and qualitative data**

This year, we've produced qualitative scenario analysis. This is an interpretation of how climate change could affect the funds and strategies in each scenario. We're currently working with our data provider, to establish a way of producing a quantitative scenario analysis. This will giv e us the measurable data – the numbers.

There are currently industry-wide issues with quantitative scenario analyses. Some of these include:

- **Data quality and availability –** getting accurate and comprehensive data on climate-related factors such as extreme weather events can be difficult. Historical data might not fully reflect future risks, and gathering enough data for reliable analysis can be a challenge.
- **Long-term uncertainty –** predicting the long-term impacts of climate change involves dealing with significant uncertainty. Future climate scenarios can vary widely, making it hard to predict how different factors will interact and what their effects will be in a quantifiable way.

- **Complex interactions –** climate change affects various interconnected systems, from ecosystems to economies. Understanding and quantifying how changes in one area can cascade through others adds complexity to risk assessment. The climate and natural environment may reach 'tipping points' leading to significantly different weather patterns and large, non-reversible impacts on nature.
- **Financial market dynamics –** it can be hard to understand how climate-related risks will influence asset values and prices.
- **Uncertainty around policy and regulations** – climate-related risks can be influenced by government policies and international agreements. Changes in these policies can significantly impact the risk landscape. However, it's a challenge to make accurate predictions.

Scenario analysis aims to estimate the impact of various scenarios on the value of an investment. While we've taken a qualitative approach for this report, we recognise there are limitations. In particular, there is limited consensus on how it should be conducted. For this reason, we've proceeded on a 'best effort' basis.

Qualitative scenario analysis also doesn't quantify the climate-related return impacts across the asset classes and investment strategies. The quantitative data is what we need to help us prioritise how we manage climate-related risks. We've made progress in evaluating quantitative scenario modelling this year, but we're not yet ready to disclose it.

It's important to remember that scenario analysis is not a forecast. There are many factors outside our control that can influence how far and how quickly the world can move to a low carbon economy. It's intended to show members how their investments could perform under different climate scenarios. It can also help members explore how resilient those investments could be over time.

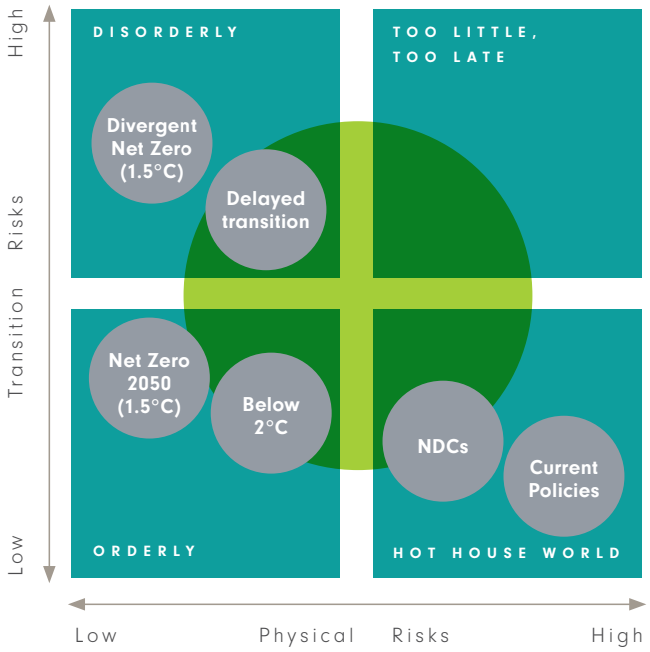
In future, we plan to conduct more detailed analysis on portfolio performance and potential member outcomes under these different scenarios.

## SCENARIOS

When considering the potential impact of climate change on the value of an investment strategy in the future, it is important to assess it across different climate scenarios. One scenario includes limiting global warming to less than 2°C by 2100.

In September 2022, the Network for Greening the Financial System (NGFS) offered a set of six climate scenarios. These explore a range of plausible outcomes using different assumptions about GHG emissions, societal choices, technology, climate adaptation and mitigation policies. They show a range of higher and lower risk scenarios where risks are realised at different times.

**The NGFS scenario framework**




Positioning of scenarios is approximate, based on an assessment of physical and transition risks out to 2100. Source: NGFS Climate Scenarios for central banks and supervisors, June 2021.

For our analysis we have considered two potential scenarios from the chart that are identified as:

**(i) 'Orderly' transition below 2°C**

**(ii) 'Hothouse world' –** NDCs, or Nationally Determined Contributions are the commitments made by each country to reduce their GHG emissions. Each party under the Paris Agreement is required to establish an NDC and update it every five years.

**(i) 'Orderly' below 2°C**

This assumes that climate policies are introduced early and become gradually stricter. This gives an estimated 67% chance of limiting global warming to below 2°C. The ambitions set out in the Paris Agreement are met in an orderly way.

This is likely to mean lower transition risks than a divergent or 'disorderly' transition. There may also be less severe, although still meaningful, physical risks. This could include the scenario of a temperature increase within 1.5ºC to 2ºC above pre-industrial levels.

**(ii) 'Hothouse world'**

This scenario includes all countries' pledged targets even if they're not yet backed up by implemented effective policies. It assumes they'll fulfil their current commitments as stated in their NDC.

While it's a positive step to have targets like this set, they are too low to avoid a significant increase in global temperatures. Emissions are likely to continue to rise. This would mean the Paris Agreement goals are missed and physical risks are high. There would be accompanying severe social and economic disruption.

These two scenarios were selected because of their contrasting approaches. There is a particular focus on the differences in regional policies, changes in technology, and climate-related physical risks. The outcomes and differing impact on portfolios and retirement pots for members under each scenario are also highlighted. It should be noted that neither scenario represents an extreme. They indicate potential directions of impacts rather than size or specific implications.

Under either scenario, members will still be exposed to broader physical and transition risks even if the risks to an individual fund are mitigated. The impact of these two scenarios on the investment arrangement are outlined on the next page.

The major assumptions of the selected climate scenarios are outlined here:

| Facet | Orderly<br>Below 2°C | Hothouse<br>NDCs |
|---|---|---|
| Temperature outcome (to 2100) | Approx 1.7°C | Approx. 2.5°C |
| Global policy reaction | Immediate decarbonisation to meet the Paris Agreement objective of a below 2°C scenario. | Implementation of countries' NDCs under the Paris Agreement, but insufficient to meet the objectives of the Paris Agreement. |
| Regional policy variation | Low variation across regions in the ambition of decarbonisation policies. | Medium variation in the ambition of decarbonisation policies across regions. |
| Technology change | Moderate response to increased deployment of low carbon technologies. | Slow to introduce low carbon technologies. |
| Carbon dioxide removal (CDR) use | Medium to high use of CDR, relative to the other scenario analysed. | Low to medium use of CDR, relative to the other scenario analysed. |
| Climate-related transition risks | Whilst transition risks are relatively higher than the hothouse scenario, these remain lower than would be expected under a 1.5°C scenario. | Low transition risks, given the countries implement only existing decarbonisation policy (with no further policy action to combat climate change). |
| Climate-related physical risks | Relatively lower physical risks than the hot house scenario. | Moderate to severe physical risks, which may result in irreversible climate tipping points. |

Notes: CDR and irreversible climate tipping points are defined in Appendix 1.

**Limitations**

These scenarios are not intended to be forecasts for the future. Instead they highlight the risks and opportunities that could arise as a result of different outcomes.

In a process intended to drive these summary outcomes, many assumptions are made. However, in the real world these outcomes are driven by interconnected influences that are constantly moving. These could be geopolitical, socioeconomic and climate-related factors. While NGFS scenarios are widely used, we can expect them to be subject to ongoing improvements and updates. Currently, they're also subject to limitations on their use.

## ASSET ALLOCATION

We have illustrated the impact of each scenario on different types of assets. We've used a 'materiality dashboard' that gives a 'low', 'average' or 'high' rating for the level of impact on different asset classes (types of investment) over different time periods.

Below are the approximate asset allocations for FIL Life based on its fund holdings as of 31 December 2023. The breakdown has been provided by Morningstar Sustainalytics, our data provider.

These will fluctuate as some funds dynamically change their asset allocation over time. There will also be changes as members approach retirement and their asset allocation changes.

**We have split this across five asset classes:**

**Gilts**
Bonds issued by governments.

**Public Credit**
Corporate bonds issued by companies (includes investment grade, non-investment grade, high yield bonds and emerging markets debt).

**Public Equity**
Stocks and shares issued by companies.

**Real Assets**
Physical assets such as property, commodities and land.

**Cash**
Short-term money market instruments and deposits.

| | Government Bonds | Credit | Equity | Real Assets | Cash | Other |
|---|---|---|---|---|---|---|
| FIL Life | 3.9% | 5.5% | 74.2% | **0.0%*** | 1.8% | 14.5% |

- *Figures are rounded, actual exposure is 0.03%.
- 'Other' includes tools available to the Fund Manager to help meet the funds' objective including derivative instruments, REITS, inflation swap, CFD, other assets/liabilities, credit default swaps, total return swaps, interest rate swaps, futures, Equity Index Options (Put), Equity Index Options (Call), Equity Options (Call), Bond Option (Call), Currency Option (Call), Equity Warrants / Rights (Call), Bond Options (Put).
- Within derivatives – equity index future and equity index swap have been included in equities.

Most of FIL Life's exposure is to publicly listed equities, or stocks and shares. Most of the remainder is invested in credit and gilts.

### (i) Scenario one – a measured, orderly transition

Climate policies are introduced early and global temperatures are limited to a rise of between 1.5 and 2°C. This will impact certain asset classes differently. The materiality dashboard below highlights the impact on asset classes across both physical and transition risks.

**Materiality Dashboard**

**Low** **Average** **High**

| | | Gilts | Public Credit | Public Equity | Real Assets | Cash | Asset class commentary |
|---|---|---|---|---|---|---|---|
| **Transition** (orderly scenario) | **Short Term** (<5 years) | | | | | | Decarbonisation efforts accelerate but some corporates are slow to adapt to rising pressures to decarbonise. Equities are expected to be most impacted with differences at sector/regional level. Some sectors will shrink. |
| | **Medium Term** (5-10 years) | | | | | | Public equity, public credit and real assets suffer from a misalignment with the low carbon transition. There are strong carbon and stranded asset risks, and the demand for riskier public credit may fall relative to lower-risk gilts. However, there is sufficient opportunity for sectors to adapt and transform. Climate-aware allocations could reduce such risks. |
| | **Long Term** (10-30 years) | | | | | | Gilts may continue to benefit from a shift in demand for higher quality bonds. However, an increase in issuing gilts to deliver on the transition might increase financing costs for the government. Reducing carbon emissions and investments in new technologies may be of benefit to investors. |
| **Physical** (orderly scenario) | **Short Term** (<5 years) | | | | | | Over the short-term, costs due to physical damage are not expected to be significant. Therefore, although the impacts of physical risks from climate change are already showing through, adapting to it remains manageable. |
| | **Medium Term** (5-10 years) | | | | | | Some small impact from physical risks affects the most susceptible regions and assets. However, the lower associated risks may enable companies in emerging markets to benefit from expected growth and development. |
| | **Long Term** (10-30 years) | | | | | | Physical risks present but are not as severe as feared; they are broadly contained but not avoided. Impact is greatest in low-income countries. |

## IMPACT ON INVESTMENTS

Given that most assets are split across gilts, credit and equity, these are the asset classes that will predominantly be impacted by climate change. We expect limited climate-related impacts for cash assets.

## EQUITIES

FIL Life has a sizeable allocation in equities. This isn't surprising given they are a key component in helping members grow their retirement pot over the long term.

Equities are expected to be impacted first, and in the short term, from the transition to a low carbon economy.

We're already addressing climate change risks in our strategies. We started with FutureWise where 42% of the £14.5bn of assets in-scope of this report is invested.

**Actions have included:**

- Setting our climate target for FutureWise and successfully reducing the carbon intensity of the portfolio. This aims to reduce transition risk exposure.
- Integrating funds into FutureWise with a greater focus on sustainability, and addressing climate change risks and opportunities. Steps we have taken are summarised earlier.

We meet our clients' needs, and act in their best interests by offering a wide range of funds. For all contract plans we offer at least five that have a focus on sustainability. They cover a range of asset classes, management styles and themes. Some plans may choose to offer additional funds to suit their members' needs.

## GILTS AND PUBLIC CREDIT

After equities, gilts and credit show the next largest exposure. However, it's less than 10% of the total assets made available to our members and may be part of other funds such as multi-asset funds.

In an orderly transition, a strategy's resilience will be improved by exposure to companies well placed to support the transition to a low carbon economy. This applies to all asset classes.

For debt instruments, it's an important part of the wider transition to have access to capital that funds climate transition investments. It will help these companies become less carbon intensive in the future.

Managing risks from the low carbon transition is a significant focus when planning changes to FutureWise. We use funds that set decarbonisation targets. And we've integrated funds that aim to have a lower carbon footprint than their parent indices (the equivalent broad market comparator). These invest in bonds from companies that make a positive – or at least neutral – contribution to the UN Sustainable Development Goals (SDGs).

### (ii) Scenario two – a business as usual, 'hothouse world' scenario

In the second scenario, the 'hothouse world', business as usual is assumed. There are no new policies introduced to tackle climate change, and current commitments to preventing climate change are not met. Emissions and global temperatures will continue to rise.

This means that the global economic output is likely to be severely impaired over the long term. There will be significant physical risks because of the change in temperatures. However, transition risk will be lower.

**Materiality Dashboard**

**Low** **Average** **High**

| | | Gilts | Public Credit | Public Equity | Real Assets | Cash | Asset class commentary |
|---|---|---|---|---|---|---|---|
| **Transition** (hot house scenario) | **Short Term** (<5 years) | | | | | | Little action taken by policy makers means there is a limited impact from transition risks. |
| | **Medium Term** (5-10 years) | | | | | | Transition risks are relatively low because of changes due to consumer preferences and existing policies. Higher volatility is possible because of uncertainty, and the potential impact on companies that have invested in the transition. |
| | **Long Term** (10-30 years) | | | | | | Moderate impact from transition risks. A lack of action from governments might impact GDP and the attractiveness of sovereign bonds. |
| **Physical** (hot house scenario) | **Short Term** (<5 years) | | | | | | Over the short-term, costs due to physical damage are not expected to be significant. Therefore, although the impacts of physical risks from climate change are already showing through, adapting to it remains manageable. |
| | **Medium Term** (5-10 years) | | | | | | As physical risks begin to accelerate, markets and asset prices are slow to respond. Increased warming will have persistent impact on the economy. This may be particularly evident with physical assets, as costly retrofitting exercises can reduce returns. Emerging markets are more impacted than developed markets. |
| | **Long Term** (10-30 years) | | | | | | Most assets perform poorly in the long-term under the hot-house scenario. Temperature rises fuel unprecedented shifts in weather patterns, and natural disasters impact more companies and their supply chains. Energy-intensive sectors experience lower costs than under an orderly transition scenario. |

## IMPACT ON INVESTMENT STRATEGIES

While an orderly transition shows a downside risk to equity returns in the short term, a hothouse world scenario shows significant downside risk in the longer term. This comes in response to physical risks, especially in emerging markets.

## EQUITIES

As extreme weather events become more severe and more frequent, we would expect global value chains to be impacted. Shifts in production patterns and disruptions to supply chains could affect global equity markets.

FutureWise allocates to equities through climate-aware funds (with specific net zero targets) managed by BlackRock and Fidelity. This means that while FutureWise has exposure to these risks, it also has some resilience to them. Under a hothouse scenario, these aim to better manage and mitigate climate-related risks over the long term, while also taking advantage of opportunities.

We will continue to engage with the Fund Managers of the solutions we offer for our equity and real estate funds. We need to understand their approach to managing exposure to physical risks in the long term. We also need to understand how they will manage climate-related risks and opportunities.

## GILTS AND PUBLIC CREDIT

The impacts of fixed income assets on estimated performance are less severe given a 'flight to quality'. This is when investors move their investments from riskier funds into safer ones.

We expect physical risks to scale up significantly over the long term. Because of this, members closer to retirement have an asset allocation tilted towards gilts and public credit. There should be less climate-related risk under this scenario than, for example, younger members with greater exposure to equities.

As groups of people collectively approach retirement, these strategies may become more resilient to physical risks, possibly because of shifts in asset allocation. However, this is subject to limitations in assessing climate-related impacts on credit assets. This isn't to say that physical risks won't become important in the long term for public credit and gilt issues. But we would expect credit managers to understand what corporates and countries are doing to improve their resiliency to physical risks from climate change.

Overall, members could see a reduced pension value as physical risks increase over the next few decades. More climate-aware and sustainability-themed investments would not perform as well in this scenario. This is due to the lack of realised changes in polices, and limited transition to a low carbon economy.

# Risk management

## A SUMMARY OF OUR STRATEGY

**FIL Life's business operations**, and the **investments** we make on behalf of our clients, are exposed to climate-related physical and transition risks. This is a summary of the risks we could face. You can find out more in the **Strategy** section of this report.

- **Physical risks** - IPCC scenarios highlight that acute physical risks associated with the impacts of climate change will increase in frequency and severity. They have the potential to impact our **business operations**, as well as the investments within the funds that are available to our clients.
- **Transition risks and opportunities** - these come from the actions taken to mitigate the impacts of climate change. They include policies, regulations, and technological innovation. All these could cause disruptive changes that impact the value of the investments our clients make through Fund Managers. For example, they could influence revenue, costs, competitive advantage and asset prices.

Our approach to identifying, assessing, mitigating and managing these risks is set out below. The content is divided into three sections. First we cover our global approach to **Enterprise Risk Management**. This is followed by sections that cover **FIL Life business**, and the value of **investments** our clients make through Fund Managers.

## ENTERPRISE RISK MANAGEMENT (ERM)

Risk management activities are designed to protect FIL Life's clients, members and assets. It's defined across Fidelity globally by the Enterprise Risk Management (ERM) framework. The framework supports us in effectively identifying risks.

It also helps us track potential events and trends which may significantly affect our ability to achieve the Group's strategic goals and maintain our operations. ESG risks, including climate risks, are integrated within the ERM framework.

The ERM Policy sets out the guiding principles and global minimum control requirements for the management of risks across Fidelity International. It includes types of risk, and defines the roles and responsibilities of key stakeholders in the ERM framework. It also sets out governance and escalation pathways.

## THE '3 LINES OF DEFENCE'

Fidelity's risk management structure is based on the '3 Lines of Defence' model. This ensures clear responsibilities for all risk management activities within the organisation.

| | 1st Line of Defence | 2nd Line of Defence | 3rd Line of Defence |
|---|---|---|---|
| Functions | Business Line Management and Employee Management Groups. | Oversight and specialist functions such as Legal, Compliance and Risk. | Internal Audit |
| Role | Responsible for day-to-day operations, and for adhering to relevant regulation and policies. Also responsible for maintaining an effective and efficient system of risk management and internal control. | Provides advice, policies, standards and objectives, and independent oversight of performance and risk management. | Provides independent and objective assurance on the adequacy of the design and effectiveness of internal controls. Also independent assurance on the Enterprise Risk Management framework and governance processes. |

**The 1st Line of Defence**

These are the risk 'owners', the people who own all risks that come from their respective business and/or processes. It includes Business Line Management, accountable for identifying, managing, monitoring and mitigating these risks in line with established policies, tools and procedures.

**The 2nd Line of Defence**

This is a risk and control layer. It comprises key control functions, including Risk, Legal and Compliance. They are responsible for the design of core enterprise and specific risk-type frameworks, methodologies and tools.

Within the Risk team, Enterprise Risk and Investment Risk teams provide independent oversight for ESG and climate-related risk. They are also responsible for providing minimum standards and controls. These help to identify, assess, mitigate, manage and report ESG risks in accordance with Fidelity International's philosophy and relevant regulatory requirements.

**The 3rd Line of Defence**

Internal Audit gives independent and objective assurance on the adequacy of the design, and the effectiveness of internal controls, the Enterprise Risk Management framework and governance processes.

## OUR APPROACH TO CLIMATE-RELATED RISK

Environmental, climate, social and governance risks have been identified and incorporated within the enterprise risk taxonomy. This is how we classify all types of risk to the organisation. It gives us a consistent approach to identifying and defining risk. Environmental and climate-related risk is defined as **'an environmental or climate-related factor or condition that can cause harm to the organisation or assets managed on behalf of clients'**. This includes factors such as air pollution, nature-related risks such as biodiversity loss, and climate change (physical and transitional).

FIL Life is fully integrated into Fidelity International's framework for managing ESG and climate-related risks. The potential impact of these risks is considered in our risk policies. It's assessed in regular reporting to the Board and in its Own Risk and Solvency Assessment (ORSA). These include transition risks – failing to comply with regulatory requirements, for example. And it includes strategic risks that could come from failing to meet clients' needs in funds and product offerings. The purpose of the ORSA is to ensure that FIL Life is sufficiently resilient to meet those risks.

## MANAGING RISK IN OUR INVESTMENTS

**Identifying, assessing and managing material climate-related risks**

In the **Strategy** section of this report, we show how climate-related risks are identified, assessed and managed. We use three broad areas – Integration, Stewardship and Fund Choices.

This is supported by regular 'horizon scanning', which helps us identify and respond to evolving climate-related regulations. A formal governance framework (detailed in the **Governance** section) aims to provide oversight and a forum for discussion of products, and broader climate-related risks and opportunities.

**Using the Lines of Defence for investment risk**

Climate-related risks are considered by the 1st and 2nd Lines of Defence.

Under the 1st Line of Defence – where risk 'owners' identify, manage, monitor, and mitigate risks that come from their business or processes – consideration may include:

**a)** A review of the level of carbon emissions (among other factors) of the default strategy over time. This ensures it's being managed in adherence with our net zero goals and any other climate-related targets.

These metrics and their position relative to our climate-related targets will be shared in our annual TCFD report.

**b)** Discussion of temperature scores and metrics in our investment solution governance meetings. These are attended by individuals across the business, and include members from the 1st and 2nd Lines of Defence.

**c)** Engagement with Fund Managers used within our solutions. This helps us better understand their exposure to climate-related risks. We encourage disclosure.

**Oversight of ESG and climate-related risks is performed independently by:**

- **The GPS Investment Solutions Forum (GPS ISF) –** for FutureWise, this includes tracking climate targets and carbon emissions intensity. Members of the forum are selected based on expertise across the business. This ensures that any solutions offered are reviewed, monitored and challenged.
- **Joint Investment Committee –** made up of Client Solutions, CIO, and BlackRock. They monitor the carbon footprint of the funds and ensure they have a lower carbon footprint than the benchmark. The committee holds the Fund Managers to account.

2nd Line representatives sit on both the WI Solutions Forum and Joint Investment Committee.

## OUR APPROACH TO INFLUENCE AND ENGAGEMENTS

Incorporating engagement into the investment decision-making process can give a deeper understanding of how a company approaches the management of ESG issues. This can lead to better informed investment decisions. It's designed to influence and drive more sustainable outcomes for investors.

FIL Life believes that Fund Managers can contribute to the long-term sustainability of the companies they invest in. They create positive shareholder value through engagement with financially material ESG risks and opportunities.

FIL Life is a life insurance company offering unit-linked funds. A unit-linked fund is a form of collective investment offered through a life insurance policy. It allows for a much larger range of investments than could normally be achieved by just one person.

FIL Life only invests in regulated funds, and in some instances reinsures into unit-linked life funds of other UK life insurance companies. These are all known as 'underlying funds'.

FIL Life does not invest in individual securities and is not a shareholder. The managers of the underlying funds into which FIL Life invests are the shareholders of the individual securities. FIL Life's key area of focus is therefore to review and assess the voting and engagement policies of those Fund Managers.

As part of Fidelity International, FIL Life will engage with other managers used by FIL Life members to bring about positive change, through collaborative industry initiatives.

FutureWise's target to net zero is tracked. There will be an escalation to the board if it is no longer on track to deliver this target.

## STEWARDSHIP AND ENGAGEMENT IN INVESTMENT SOLUTIONS

Every year FIL Life reviews the relevant Fund Managers' engagement and voting activities. The managers provide information about how they have exercised their voting rights and what key issues they have engaged with.

Engagement can be a powerful tool in mitigating many ESG risks. It can also influence better industry practices. However, it isn't always sufficient to mitigate certain risks, so when we design solutions, we choose funds that exclude certain sectors.

FIL Life reviews the stewardship and engagement policies of the largest Fund Managers available to FIL Life members, and this process will evolve and adapt over time. You can learn more here about **FIL Life's Shareholder Engagement Policy**, and the **engagement policies of other Fund Managers**.

### Exclusions

While we believe that constructive dialogue is the best approach, we will consider excluding companies based on specific ESG and climate-related criteria. We adopt a principles-based approach to ESG matters. As part of this, we make the following exclusions in FutureWise:

- Companies that derive more than 5% of their revenue from certain carbon-heavy activities such as thermal coal and oil sands.
- Violators of the United Nations Global Compact Principles (which include principles on environmental challenges, environmental responsibility and the development of environmentally-friendly technologies) as assessed by our Fund Managers.

# Metrics and targets

We use certain climate-related metrics to track the progress of our climate strategy. They show how we're managing climate-related risks for FIL Life, and for the investments we make available for our clients. They can also show us where we need to improve.

- In the **Introduction**, we set out our climate targets. We explain Greenhouse Gases, Scope 1, 2 and 3 emissions, and what the GHG protocol is.
- In **Strategy**, we consider the types of risks and opportunities we could face as climate change progresses, and regulations change. We explain our climate investing approach – Integration, Engagement, and Fund Choice – and show how we apply them to our investment solutions and funds.
- In **Risk Management**, we show how we aim to manage climate risk. We engage with the Fund Managers in our investment solutions about our climate expectations. And we work with them to ensure high emitting companies set climate targets, and improve their plans to move to a low-carbon future.

## WHY ARE METRICS IMPORTANT?

The metrics, or numbers, help us identify, manage and assess the financial impact of climate-related risks and opportunities. They provide greater transparency for our members. And they can help us set the strategic direction of travel for our investments. We'll continue to review the metrics we provide and either change or include more metrics in future.

Disclosing material emissions is good practice, and it's the way regulations are heading. The European Corporate Sustainability Reporting Directive, and the IFRS accounting bodies' International Sustainability Standards Board (ISSB) both prescribe disclosure. In the US, the Securities and Exchange Commission (SEC) does the same.

These regulations will help to improve the quality of our data over the coming years, especially with Scope 3 emissions. Greater disclosure, standardisation and comparability are on the horizon.

In this report, we look at the metrics for the carbon exposure of the companies we invest in. These cover the investments we make on behalf of our clients. We do not include the shared business operations carbon emissions in our Scope 1, 2, or 3 calculations in this report. You can find the business operations metrics in the **Asset Manager's report.**

## REPORTING DATES

As this is our first reporting period, we've used assets held by FIL Life as of 31 December 2023 to cover the calendar year up to 31 December 2023. The latest available carbon data for each company is taken from Morningstar Sustainalytics to calculate the numbers shown in this report.

For our FutureWise net zero numbers, we've included annual data from 2020 – 2023. This allows us to show our net zero journey for FutureWise, as 2020 is the year we set our net zero target.

The business operational emissions reported in the **Asset Manager's report** are from 2019 - 2023.

## OUR DATA PROVIDERS

We have selected Morningstar Sustainalytics to be our main data provider. Morningstar allows us to report emissions for external fund managers, Assets under management that are outside of FutureWise.

However, in 2020 when we set our FutureWise net zero target, we relied on Institutional Shareholder Services (ISS).

Data and methodology amongst providers can vary. This means emissions reported by Morningstar and ISS aren't directly comparable. Therefore we continue to use metrics from ISS to track our FutureWise net zero progress.

The metrics disclosed in the Asset Manager's report, which includes operational emissions data, is produced using ISS's carbon data and methodologies defined within Fidelity's proprietary "Climate Engine"

**Some key differences between data providers are:**

- **The types of investment instruments that are excluded** – for example, not all providers report on sovereigns and derivatives.
- **Data estimation** – where companies do not have reported emissions, providers can estimate them. The way different providers estimate these figures can differ.
- **Timing of collecting the data** – companies typically release their emissions data annually, with a delay. Data providers vary in when they update the numbers. This means that the data can vary by provider at a given point in time.
- **Calculation used for the numbers** – the calculation applied can differ slightly among providers.
- **Availability of issuer data** – the quantity and quality of data may vary between providers. This will depend on what's included, and how the data is mapped.

Further details of the data and methodology differences and limitations can be found in the Appendix.

**In summary**

- We've shown progress for our FutureWise net zero journey using ISS methodology and carbon data. This should help readers track our progress against targets using the same methodology.
- For the total emissions and wider set of climate metrics we rely on data from Morningstar Sustainalytics. We do this because Morningstar can provide emissions for a larger number of funds - those managed by external Fund Managers outside of Fidelity.

## WHAT METRICS DO WE MEASURE?

We monitor a number of backward and forward looking indicators that help us measure our progress in a broad sense and how we are progressing towards our climate target.

These metrics are both 'absolute' and 'intensity' emissions metrics. Absolute emissions measure the 'fair share' of investment financed emissions and align with our long term 2050 target to reach net zero. For this we are also dependent on the global economy to get to net zero too.

We use an intensity metric - the 'Carbon footprint' to track our progress on our 2030 climate target to halve our emissions intensity for our investments. Intensity metrics also help with comparing across portfolios and differing amounts of investments.

We also are introducing forward-looking recommended metrics, such as the Implied Temperature Rise (ITR). We rely on a data provider for this metric. It is a metric that indicates how a company's emissions are aligned to the world's future temperature rise since pre-industrial times. It can then be used to compare against the Paris Agreement's target is to limit the world's temperature rise to "well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels".

While data is useful, we also aim to influence real world emissions by encouraging our Fund Managers to engage with companies or issuers to set climate targets and reduce emissions. This is rather than just purely divesting, say on the basis of a high emissions number.

The table below shows further details of metrics, why the metric is useful and its limitations. The calculations used for each metric are shown in the Appendix.

| Metric | Methodology | Usage | Limitations |
|---|---|---|---|
| Total Carbon Emissions<br><br>Scope 1, 2 and 3 GHG emissions – tonnes | Scope 1 is a measurement for **direct** GHG emissions. These are emissions that come from equipment that's **owned** or **controlled** by the companies within a fund.<br><br>Scope 2 is a measurement for **indirect** GHG emissions. These are emissions that come from energy sources bought by the companies within the fund. They could come from electricity, steam, heating or cooling.<br><br>Scope 3 is a measurement for all other indirect GHG emissions that aren't included in Scope 2. These are emissions that can occur at any stage of a company's product lifecycle.<br><br>At portfolio level, the value refers to the amount of Scope 1, 2 & 3 carbon emissions attributable to the portfolio.<br><br>It's calculated by working out what percentage of each company or issuer the portfolio owns - i.e. a 'fair share' percentage. The portfolio is therefore responsible for that portion of the company's carbon emissions. All holdings are then added together to give the portfolio's absolute emissions in tonnes. | Calculates the absolute GHG emissions attributable to Scope 1, 2 & 3 financed by a portfolio. | Cannot be easily compared or benchmarked against due to the link to the size of the portfolio.<br><br>Company-level emissions data may be either reported or estimated.<br><br>Scope 3 data is typically harder to obtain. It's often largely estimated and has quality and reliability issues. |

| Metric | Methodology | Usage | Limitations |
|---|---|---|---|
| Carbon Footprint | A measure of a fund's emissions intensity divided by the value of the portfolio. It is measured in tonnes of $CO_2e$ ($tCO_2e$) for each GBP £million invested in the fund. | Enables the comparison of carbon data of FIL Life's contract book irrespective of the size of assets.<br>We use this to track our investment climate target and allows us to compare funds of different sizes. | Sensitive to rising or falling portfolio values through time. |

| Metric | Methodology | Usage | Limitations |
|---|---|---|---|
| Weighted Average Carbon Intensity (WACI) | A measurement that shows a company's carbon efficiency (or revenue intensity) for each GBP £million of revenue. WACI is useful for comparing companies within industry sectors, and the wider market. It's also useful for identifying carbon intensive companies.<br>WACI measures emissions intensity per £ million of issuer revenues, weighted by the percentage of overall fund value. It is different to absolute emissions which is proportional to the 'fair share ownership' emissions of an issuer. | Useful to compare FIL Life's investments relative to others and helps identify high carbon intensity exposure. | Limited to publicly listed equities and corporate debt.<br>Company-level emissions data may be either reported or estimated.<br>The modelling approach for other providers may limit comparison. |

| Metric | Methodology | Usage | Limitations |
|---|---|---|---|
| Implied Temperature Rise (ITR) | ITR is a model from our data provider that gives an indication of how a company's emissions are aligned to the world's temperature in the future. To get the result, its current emissions are measured against a global emissions carbon budget.<br><br>The Paris Agreement's target is to limit the world's temperature rise to no more than 1.50C by the end of this century. | Gives an indication of how well aligned FIL Life's investments are relative to the world's temperature in the future.<br><br>It should be used cautiously. | Limited to publicly-listed equities and corporate debt. Models incorporate estimated data and projections.<br><br>Company-level emissions data may be either reported or estimated.<br><br>These indicators are calculated by our data provider, using a collection of highly complex models. We recommend that these are used with caution. |

# What do FIL Life's investments show?

Before looking at the emissions figures, it's important to understand the coverage of data that's available. The coverage is the proportion of investment holdings for which data is used to calculate each emission metric.

For example, the coverage for Scope 1 and 2 absolute emissions is 70.8%. This means that the emissions of 541,353 tonnes of $CO_2e$ ($tCO_2e$) represent emissions coverage for 70.8% of FIL Life's in-scope investments.

We've outlined this in the table below, along with the emissions values for 2023. The coverage differs slightly between the metrics. This is because each metric requires a number of data points to be able to make a calculation, which may or may not have been available at the time of reporting.

For example, for the **Absolute Carbon Emissions** metric, Scope 1 & 2 data is required. But for **Carbon Footprint**, EVIC (Enterprise Value Including Cash) data is also required.

**Coverage**: We do not have reported or estimated emissions for all corporates, this represents the percentage of assets we have data for.

| Metric | Methodology | 2023 | Coverage |
|---|---|---|---|
| Absolute Carbon Emissions | $tCO_2e$ Scope 1 & 2 | 541,353 | 70.8% |
| | $tCO_2e$ Scope 3 | 6,631,923 | |
| | Total $tCO_2e$ | 7,173,274 | |
| Carbon Footprint | Scope 1 & 2 $tCO_2e$ per £m invested | 51.9 | 70.8% |
| | Scope 3 $tCO_2e$ per £m invested | 636.4 | |
| | Total $tCO_2e$ per £m invested | 688.2 | |
| Weighted Average Carbon Intensity (WACI) | Scope 1 & 2 $tCO_2e$ per £m revenue | 124.0 | 80.3% |
| | Scope 3 $tCO_2e$ per £m revenue | 1,289.9 | 79.9% |
| | Total $tCO_2e$ per £m revenue | 1,413.0 | |
| Implied temperature rise (ITR) | **Total** (°C) | 3.0 | 69.5% |

Source Morningstar Sustainalytics

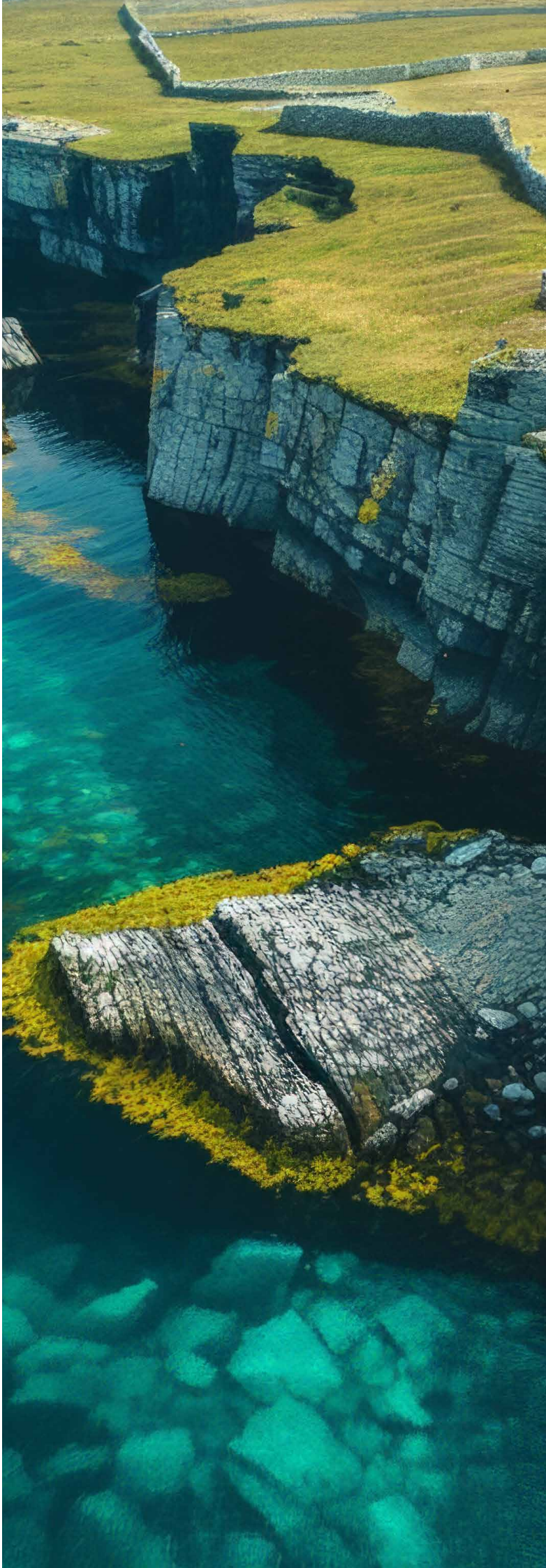
We know that the quality and availability of data needs to improve across the industry, both with data providers and at company level.

In the spirit of the TCFD regulations we have also shown our Scope 3 emissions. These make up a large proportion of total investment emissions (Total $tCO_2e$).

Only a small percentage of companies currently report scope 3 emissions. So, we rely heavily upon estimations provided by our data provider. As more companies report scope 3 emissions, there is better data which these estimation models can use, and as such we expect the quality of scope 3 data to improve over the coming years. However, in the interim scope 3 data quality has data quality issues and can be volatile from year to year. In some cases, as estimation models are adjusted upwards, it can make prior year emissions not comparable.

As FIL Life's assets grow and data coverage improves over time, it could result in absolute emissions such as Total $tCO_2e$ to increase. Absolute emissions will also be reliant upon a transition to a global low carbon economy.

As well as continuing to develop our investments and strategies, we will engage with our data provider and Fund Managers to increase and improve reporting. This will help to support the ongoing quantity and quality of emissions data.



# Progress towards our Climate Target

We believe setting targets is a useful approach. It helps us track our efforts to reduce the risks associated with climate change.

We've set the following targets for FutureWise:

1. To halve the Scope 1 and 2 carbon footprint by 2030, from a 2020 baseline.
2. To achieve net zero by 2050.

We monitor our first target using the 'carbon footprint' metric, and we track our long term ambition to reach net zero with our 'carbon footprint' as well as monitoring absolute emissions. For this report, we've used ISS data and methodology to provide comparability across all years reported.

Overall, we're pleased with the progress we're making with our targets. Based on the available coverage over time, the carbon footprint for our investments in FutureWise has fallen from 104.4 $tCO_2e$ in 2020 to 35.45 $ttCO_2e$. This is a fall of 66% and below our 50% target of 52.2 $tCO_2e$.

Overall, we're pleased with the progress we're making with our targets. Based on the available coverage over time, the carbon footprint for our investments in FutureWise has fallen from 104.4 $tCO_2e$ in 2020 to 35.45 $tCO_2e$. This is a fall of 66% and is already below our 50% reduction target of 52.2 $tCO_2e$.

Over the same period, coverage fluctuated due to changes in asset allocation. FutureWise moved between investments that are and are not captured through ISS, for example, government bonds. However, we're still pleased with how this has improved over time.

This reduction in carbon footprint is largely down to changes to the funds used within FutureWise, and is also likely to have been aided by some improvement in the carbon emissions of companies which have being reducing their scope 1 and 2 emissions. FutureWise has integrated more sustainable and climate-aware funds into FutureWise over the years. Most of these funds aim to have a lower carbon footprint than their parent indices (their broader relevant market) and also aim to tilt towards companies which are more sustainable and away from those that are less sustainable. It also excludes carbon-intensive sectors such as oil sands and thermal coal.

| **Relative Carbon Footprint (Scope 1&2)** | **Relative Carbon Footprint ($tCO_2e$/Portfolio Value £m)** | | | | **Target (50% of 2020)** |
|---|---|---|---|---|---|
| **Year** | **2020** | **2021** | **2022** | **2023** | |
| FutureWise | 104.4 | 84.03 | 46.98 | 35.45 | 52.2 |
| Coverage | 71.6% | 81.5% | 68.5% | 97.9% | |

Source: ISS

## CONCLUSIONS AND NEXT STEPS

We're pleased with our progress. However, climate reporting and transition planning is a journey and there's further work to be done. We aim to improve the way we report our climate figures in the coming years.

The results and findings of these TCFD reports will help to shape and enhance our climate strategy.

**Key areas of focus will be:**

- The continued evolution of our climate strategy for investments (including FutureWise).
- Continued evolution of our governance and risk management framework.

# Glossary of Terms

**Active ownership** – a form of stewardship where shareholder power is used to influence corporate behaviour through direct corporate engagement, filing or co-filing shareholder proposals, and proxy voting. This is typically guided by comprehensive guidelines.

**AUM** - Assets under Management. This is the market value of all the investments we manage for our clients.

**Biodiversity** – the variability of living organisms from all sources including terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part. This includes diversity within species, between species and of ecosystems.

**Business Operations** – all business operations that support the FIL Limited Group. Business operations typically comprise office-based activities, including business travel, working with clients and attending off-site meetings.

**Carbon emissions** – the total measurement of an individual's or entity's GHG emissions, converted into a single $CO_2$ equivalent number.

**Carbon footprint –** a measure of the total amount of GHGs – primarily carbon dioxide – released into the atmosphere because of the activities of an individual, or other entity. It's measured in tonnes of $CO_2e$

($tCO_2e$) for each GBP £million invested in the fund.

**Carbon Intensity** – the volume of carbon emissions per million GBP of revenue expressed in tonnes $CO_2e$ / $M revenue. This is also known as the carbon efficiency of a portfolio.

**Category 15 emissions** – a GHG emissions category. It includes Scope 3 emissions associated with the reporting company's investments that are not already included in Scope 1 or Scope 2. This category is applicable to investors and companies that provide financial services.

**CIO** - Chief Investment Officer

**Climate change** – a term commonly used to describe significant changes in the measures of climate, such as temperature, rainfall, or wind, that last for an extended period.

**Climate risks** – risks linked to climate change with the potential to affect companies, industries and wider economies. As well as physical risks, these include potential regulatory action, litigation and competitive and reputational risks that can be associated with climate change.

**Climate scenarios** – plausible climate futures, taking into account increasing atmospheric concentrations of GHGs.

**Climate targets** – a measurable long-term commitment for climate policy with the aim of limiting climate change.

**$CO_2e$** – carbon dioxide or equivalent. Greenhouse Gas emissions don't just come from carbon dioxide, although $CO_2$ is the most common. GHGs can also come from methane, nitrous oxide, ozone or water vapour.

**Decarbonisation** – the removal or reduction of carbon dioxide output into the atmosphere.

**Engagement** – the active ongoing process of constructive dialogue with a Fund Manager during which changes may be sought. This may be at issuer level based on the fund's holdings to the issuer and can involve frequent and lengthy dialogue with representatives of the company.

**Environmental factors** – the environmental issues considered by responsible investors when analysing investments. Examples include climate change, resource depletion, waste, pollution and deforestation.

**Environmental, Social and Governance (ESG)** – ESG is used as shorthand for a range of factors considered by companies, investors, public sector and other organisations in their decision-making processes. These include, but aren't limited to strategy, purpose financing, issuer reporting and supply chain management.

For example, environmental factors include climate change, resource depletion, waste, pollution and deforestation. Social factors include human rights, modern slavery, child labour, working conditions and employee relations. Corporate governance factors include bribery and corruption, executive pay, board diversity and structure, political lobbying/donations and tax strategy.

**ESG integration** – the inclusion of ESG issues in investment research and analysis. At Fidelity, this happens through our internal research process and includes consideration of Fidelity's ESG Ratings and our active ownership approach, covering individual and collaborative engagements, and voting.

**Exclusions** – exclusions prohibit certain investments from a firm, fund or portfolio. They may be applied for a variety of reasons, including to align with client expectations. They can also be applied at different levels – sector, business activity, products or revenue stream, company, jurisdictions, and countries.

**Fiduciary** - a person or organisation which acts on behalf of others and is legally bound to act in their best interests.

**FIL Limited** – a privately-owned company incorporated under the laws of Bermuda.

**FIL Limited Group** – all legal entities which sit under FIL Limited and are considered in-scope for this report.

**Financed Emissions** – GHG emissions that occur because of financing. This includes lending and investment activity. These activities fall within Scope 3, Category 15 of the GHG protocol.

**GDP** – Gross Domestic Product. A standard measure of the value of goods and services produced in a country in a given period of time.

**Greenhouse Gases (GHGs)** – these are gases that contribute to global warming. They get their name because they trap heat and energy from the sun, just like a glass greenhouse.

**GHG Intensity** – the level of Greenhouse Gas emissions per unit of economic activity.

**GHG Protocol Corporate Accounting and Reporting Standard** – a standard which provides requirements and guidance for companies and other organisations preparing a GHG emissions inventory.

**Greenwashing** – falsely giving the impression that a company's products and services provide greater environmental or 'green' benefits than is actually the case.

**Investments** – an asset or item acquired with the goal of generating income or appreciation.

**ISS** – Institutional Shareholder Services is an independent company offering a range of products and services for Financial Service companies.

**IPCC** – Intergovernmental Panel on Climate Change. This Is the United Nations body for assessing the science related to climate change.

**ISO 14001** – ISO 14001:2015 specifies the requirements for an environmental management system that an organisation can use to enhance its environmental performance. ISO 14001 is maintained by the International Organisation for Standardisation (ISO).

**Implied Temperature Rise (ITR)** – an intuitive, forward-looking metric, expressed in °C (degrees Celsius). It's designed to show the temperature alignment of companies, portfolios and funds with global temperature goals. Investors can use ITR to set decarbonisation targets and support engagement on climate risk.

**Nationally determined contributions (NDCs)** - commitments that countries make to reduce their greenhouse gas emissions as part of climate change ambitions.

**Network for Greening of the Financial System (NGFS)** – a group of Central Banks and Supervisors willing, on a voluntary basis, to share best practices and mobilise mainstream finance to support the transition to a sustainable economy. They aim to contribute to the development of environment and climate risk management in the financial sector.

**Net zero** – an overall balance between GHG emissions produced and those taken out of the atmosphere.

**Net zero commitment** – organisations or fund management companies that have pledged to reduce the sum of their GHG emissions to 'net zero'.

**Paris Agreement** – the international treaty that came into force in November 2016. The agreement is to limit the global rise in temperature from pre-industrial levels to below 2°C this century and ideally below 1.5°C.

**PCAF (Partnership for Carbon Accounting in Financials)** – a global partnership of financial institutions. Together they develop and implement a harmonised approach to assess and disclose the GHG emissions of their loans and investments.

**Public Markets** – financial markets where investments are traded on exchanges and easily invested in by the public.

**Quantitative scenario analysis** – a numerical value applied to various scenarios which aims to predict how different scenarios like temperature of extreme weather may impact the investments we hold. It helps us to understand risks, plan for the future, and take action to reduce the impact of climate change.

**Real Estate Investment** – the practice of purchasing property as an investment, to generate income.

**Renewable energy** – energy from a source that is not depleted, such as solar, wind and wave power.

**Responsible investing** – commonly used to describe a range of ESG investing strategies, such as ethical, exclusionary, impact, socially-responsible investing and ESG integration.

**Risk tolerance** – the level of risk an entity is willing to assume to achieve a potential desired result.

**Scope 1, 2 & 3 emissions** – GHG emissions are categorised into three groups or 'Scopes'. Scope 1 covers direct emissions e.g. use of natural gas or company car vehicle emissions. Scope 2 covers indirect emissions from the generation of purchased electricity, steam and heating. Scope 3 includes 15 other categories of indirect emissions in a company's value chain, for example, business travel and investments.

**Stewardship** – a broad term that refers to the use of influence by an active institutional investor looking to maximise and preserve value. This includes, but isn't limited to, preserving overall long-term value for the benefit and in the best interests of clients and beneficiaries.

**Stranded assets** – this is an asset, for example, a fossil-based or carbon-intensive energy source, that has become obsolete, decommissioned or non-performing. As we use it here, the asset has become a liability because of a climate-related risk or event – climate change, new regulations, or consumer behaviour, for example. Stranded assets must be recorded on the balance sheet as a loss of profit.

**Sustainable investing** – an investment in an economic activity that supports or contributes to an environmental or social objective.

**Sustainability-themed investing** – an investment approach where investments are selected because of a sustainability theme. This could be climate change mitigation, pollution prevention, sustainability solutions and approaches that relate to one or more of the UN Sustainable Development Goals (SDGs).

**Task Force on Climate-Related Financial Disclosures (TCFD)** – created in 2015 by the Financial Stability Board (FSB). The TCFD's aim is to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors. This helps them provide reliable, comparable and clear information to stakeholders. This will strengthen the stability of the financial system, contribute to greater understanding of climate risks and facilitate financing the transition to a more stable and sustainable economy.

**$tCO_2e$** – tonnes of carbon dioxide equivalent. A measurement of all gases that cause global warming, expressed in tonnes.

**United Nations (UN)** – a diplomatic and political international organisation whose stated purpose is to maintain international peace and security. They do this by developing develop friendly relations among nations, achieving international cooperation, and serving as a centre for harmonising the actions of nations.

## APPENDIX – DETAILED TCFD ALIGNMENT SUMMARY

The following table cross-references the TCFD guidance to the relevant parts of this TCFD report.

| TCFD Pillars | Recommended Disclosures | Page number for response |
|---|---|---|
| Governance | a) Describe the Board's oversight of climate-related risks and opportunities.<br>b) Describe management's role in assessing and managing climate-related risks. | P18 |
| Strategy | a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.<br>b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.<br><br>**Supplemental Guidance for Asset Owners**<br>Asset Owners should describe how climate-related risks and opportunities are factored into relevant investment strategies. This could be described from the perspective of the total fund or investment strategy, or individual investment strategies for various asset classes.<br>c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.<br><br>**Supplemental Guidance for Asset Owners**<br>Asset Owners that perform scenario analyses should consider providing a discussion of how climate-related scenarios are used. This would inform investments in specific assets. | P23 |

| TCFD Pillars | Recommended Disclosures | Page number for response |
|---|---|---|
| Risk Management | a) Describe the organisation's processes for identifying and assessing climate-related risks.<br><br>**Supplemental Guidance for Asset Owners**<br><br>Asset Owners should describe, where appropriate, engagement activity with investee companies. The activity is to encourage better disclosure and practices related to climate-related risks. Its aim is to improve data availability and Asset Owners' ability to assess climate-related risks.<br><br>b) Describe the organisation's processes for managing climate-related risks.<br><br>**Supplemental Guidance for Asset Owners**<br><br>Asset Owners should describe how they consider the positioning of their total portfolio with respect to the transition to a low-carbon energy supply, production, and use. This could include explaining how asset owners actively manage their portfolios' positioning in relation to this transition.<br><br>c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management. | P41 |

| TCFD Pillars | Recommended Disclosures | Page number for response |
|---|---|---|
| Metrics & Targets | a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process<br><br>**Supplemental Guidance for Asset Owners**<br><br>Asset Owners should describe metrics used to assess climate-related risks and opportunities in each fund or investment strategy. Where relevant, they should also describe how these metrics have changed over time.<br><br>Where appropriate, Asset Owners should provide metrics considered in investment decisions and monitoring.<br><br>Asset Owners should describe the extent to which assets they own and their funds and investment strategies, where relevant, are aligned with a well below 2°C scenario. They can use whichever approach or metrics best suit their organisational context or capabilities. Asset Owners should also indicate which asset classes are included.<br><br>b) Disclose Scope 1, 2, and, if appropriate, Scope 3 GHG emissions, and the related risks.<br><br>**Supplemental Guidance for Asset Owners**<br><br>Asset Owners should disclose GHG emissions for assets they own and the weighted average carbon intensity (WACI) for each fund or investment strategy, where data and methodologies allow.<br><br>These emissions should be calculated in line with the Global GHG Accounting and Reporting Standard for the Financial Industry developed by the Partnership for Carbon Accounting Financials (PCAF Standard) or a comparable methodology. In addition to WACI, asset owners should consider providing other carbon footprinting metrics they believe are useful for decision-making.<br><br>c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. | P46 |

# Appendix

## DATA AND METHODOLOGY LIMITATIONS

Each data provider has its own way of collecting data and aggregating it for funds. There's no industry-wide consensus on which approach to use.

We've chosen Morningstar Sustainalytics to be our main data provider, and we rely on their data and methodology for calculating metrics. However, we accept that availability of data across some asset classes is a challenge.

The metrics provided by Morningstar Sustainalytics are calculated according to the GHG Protocol, a global framework to measure and manage Greenhouse Gas emissions.

The availability of accurate and reliable, or even estimated data across all investments is sometimes assumed as a given. But in many cases it is not, and it requires time, effort and persuasion through engagement to deliver what we need.

Data providers may choose to apply a one-size-fits-all approach across issuers and sub-industries, so it's possible that because of this, some of the smaller sub-industries could show a poor performance. This could be because they have unique activities or processes that affect their emissions.

A sub-industry is one that sits within a larger category defined by a data provider. For example, real estate may sit within the 'Cyclical Consumer Industries' category. This covers businesses that are affected by shifts in the economy. When the economy is good, they're likely to grow, but if the economy isn't performing well, they tend to shrink.

While most data providers have certain issues with emissions data for these smaller sub-industries, some choose to apply different methodologies to deal with it. It will depend on the type of industry.

Dates and timings can also differ.

These differences make it impossible to accurately benchmark Morningstar Sustainalytics against peers.

## MORNINGSTAR SUSTAINALYTICS METHODOLOGY

This is how the metrics are calculated. Some funds will use estimated data:

**1. Portfolio 'look-through'**

Morningstar Sustainalytics will first attempt to, 'look through' any funds that are held by the portfolio to find underlying, indirectly-held holdings. The "look though" function goes up to 10 portfolios '"deep"—that is, when a portfolio holds a fund and in turn that fund hold other funds, the "look through" process will assess 10 "levels" of portfolios. The exception to this rule is for funds that are synthetically replicated; for the purpose of the carbon emissions calculations, they will be treated as being equivalent to a portfolio holding derivatives. The derivative holding will not be "looked through" and for the purposes of the calculations are treated as "other holdings"—that is, not corporate nor sovereign holdings.

**2. The 'net long portfolio' is calculated**

The calculation steps start with a net long portfolio, also referred to as the adjusted portfolio. Morningstar Sustainalytics calculate portfolio weights based on the following steps:

**1)** Any securities that have both long and short positions will be 'netted out' – that is, the short position weight will be subtracted from the long position weight.

**2)** Any remaining short positions will be removed.

**3)** Any currency offsets will be removed.

**4)** The portfolio weight will then be recalculated on the netted-out long positions only

The rescaled weight of a holding in the adjusted portfolio is derived as the holding's original portfolio weight, divided by sum of the original portfolio weights of the netted-out long, non-cash offset holdings.

**3. Ineligible securities, and securities with no data**

Morningstar Sustainalytics identifies and calculates both the eligible and non-eligible portion of the portfolio and includes the portion of eligible holdings which have underlying data (are "covered"). Eligible holdings include corporate entities, such as equities and corporate bonds. Securities not linked to corporate entities are excluded from the calculated metrics - sovereigns, for example. Holdings that are eligible where the company does not have the required underlying data are also excluded from calculations, as they are considered eligible but not covered.

**4. EVIC = Enterprise Value including cash, where the investment value amount represents °C:**

- For a listed equity, the market value of the equity holding
- For a loan or corporate debt instrument, the face value of the outstanding balance

**5. TCRE factor**

An IPCC derived factor that determines the amount of radiative forcing (warming) as degree Celsius (°C ) per megaton (Mt) of GHG emissions.

**The relevant calculations are set out below:**

| Metric | Formula |
|---|---|
| Portfolio Carbon Footprint | $$Portfolio\ Carbon\ Footprint = \frac{\sum_{i=1}^{EC} \frac{holding\ size_i\ (USD)}{issuer's\ EVIC_i\ (USD)} * issuer's\ total\ emissions_i}{\sum_{i=1}^{EC} holding\ size_i\ (USD)}$$ |

Where

| | | |
|---|---|---|
| $Portfolio\ Carbon\ Footprint$ | = | The amount in tonnes per million USD invested of the relevant emission(s) for which the portfolio is known to be responsible. |
| $holding\ size_i(USD)$ | = | The amount in millions of U.S. dollars the portfolio has invested in the relevant underlying covered company. The sum of all holding sizes will be the covered portion of the portfolio. |
| $issuer's\ EVIC_i(USD)$ | = | The entire value of the company (enterprise value including cash) in millions of U.S. dollars. This is calculated by summing the market capitalization, the total preferred stock/units/securities, the noncontrolling/minority interests in equity, and the total debt. |
| $issuer's\ total\ emissions_i$ | = | The amount, in tonnes, of the relevant emission(s) for which the relevant company is responsible. |
| $i = 1, EC$ | = | All eligible, covered holdings. These are securities in the adjusted (net long) portfolio that are of the relevant holding type (eligible, E) and for which the relevant underlying data is known (covered, C). |

| Metric | Formula |
|---|---|
| Portfolio Carbon Intensity / Weighted Average Carbon Intensity (WACI) | $$Portfolio\ Carbon\ Intensity = \sum_{i=1}^{EC} W_i^{RC} * Carbon\ Intensity_i$$ |

Where

| | | |
|---|---|---|
| $Portfolio\ Carbon\ Intensity$ | = | The asset-weighted average of a company's tonnes of CO2e per millions of USD revenue of the relevant emissions for all covered companies held in the portfolio. |
| $W_i^{RC}$ | = | The rescaled weight of the covered holding, which for each covered holding is derived as the original portfolio weight divided by the weight of the covered portfolio. The covered portfolio is the subset of eligible holdings that have relevant input data available. |
| $Carbon\ Intensity_i$ | = | Carbon intensity of covered holding. |
| $i = 1, EC$ | = | All long, covered holdings. These are securities in the adjusted (net long) portfolio that are of the relevant holding type (eligible, E) and where the relevant underlying data is known (covered, C). |

| Metric | Formula |
|---|---|
| Implied Temperature Rise (ITR) | $$Portfolio\ Implied\ Temperature\ Rise\ (℃) = 1.5℃ + Portfolio\ GHG\ Emissions\ Gap\ \% * Global\ Emissions\ Budget * TCRE\ Factor$$ |

where:

| | | |
|---|---|---|
| $Portfolio\ Implied\ Temperature\ Rise(℃)$ | = | The implied temperature rise of the portfolio's GHG emissions relative to the portfolio's net zero aligned GHG emissions budget to 2050 for all emissions scopes. |
| $Portfolio\ GHG\ Emissions\ Gap\ \%\ All\ Scopes$ | = | The relative percentage difference between the portfolio's GHG emissions and the portfolio's net zero aligned GHG emissions budget to 2050 for all emissions scopes. |
| $Global\ Emissions\ Budget$ | = | The cumulative amount of GHG emissions, in gigatons, that can be emitted to limit warming to 1.5 degrees. |
| $TCRE\ Factor$ | = | The Transient Climate Response to Cumulative Carbon Emissions is an IPCC derived factor that determines the amount of radiative forcing (warming) as degree Celsius (°C) per megaton (Mt) of GHG emissions. |

## METHODOLOGY FOR FUTUREWISE'S NET ZERO TARGET USING INSTITUTIONAL SHAREHOLDER SERVICES (ISS)

We've calculated the carbon footprint for FutureWise in this report using ISS methodology. This methodology isn't currently able to support the analysis of certain security types – in particular, cash, derivatives and sovereign bonds.

So, for this report, the analysis only currently covers data for public equity and corporate bonds. And while we aim to use data that's as complete as possible, there are still limits to the proportion of the data available that can be mapped. Where this isn't possible, it hasn't been included in the calculations.

With the remaining data, the ISS system analyses as much as is practicable. However, FIL Life and ISS cannot be, and are not, responsible for any gaps in data caused by lack of reporting from companies held within investments.

ISS continues to rely on a proportion of estimated data. This is expected to change as reporting requirements take effect, and more companies start to disclose their data.

## DIFFERENCE IN METHODOLOGY USED BY FIL ASSET MANAGER AND FIL LIFE

ISS is the main data provider for the Asset Manager report. Fidelity International has built a 'Climate Engine' which takes ISS data and calculates the metrics. However, the approach and methodology used in Climate Engine is different to the ISS approach and methodology used to calculate the carbon footprint numbers for FutureWise net zero tracking.

**Some of the differences in methodology used in Climate Engine (using ISS data) and Morningstar Sustainalytics:**

➔ **A different approach to aggregation:**

Climate Engine calculates the emissions on all long (positive) and short (negative) positions, and then nets off the emissions.

Morningstar Sustainalytics subtracts the short (negative) positions from the long (positive) first, and then calculates the emissions.

Some differences also arise in the way ineligible instruments and securities without data are removed.

➔ **A different approach to estimating data**

Where GHG emissions data is missing, each provider has its own way of estimating it. This means the same portfolio or entity may show different carbon measures.

You can find out more about how Climate Engine manages the data in the **Asset Manager report.**

## CAUTIONARY STATEMENT

This report, and its information, should be treated with special caution, as it requires a significant amount of data, methodologies, assumptions, judgements and estimations made at a given point in time.

Our understanding of climate change effects, data, metrics and methodologies and its impact continue to evolve. Indeed, there are no clear market standards and these standards, as well as regulations, are evolving at the moment. This may lead to large scale revisions of reported data, targets and make them incomparable to previous reports on a like-for-like basis.

Judgements are made on, but not limited to, financed carbon emissions, business operations emissions and scenario analyses. Our statements on materiality rely upon a greater number of assumptions and estimates than those in financial reporting. The quality of data relied upon to produce climate-related information is not of comparable quality to that of financial reporting. Where a judgement has been exercised, the estimates or assumptions used may subsequently turn out to be incorrect. The longer time horizon of certain information makes the assessment of materiality inherently uncertain.

A significant amount of forward-looking statements are included in this report, such as, but not limited to,:

- the government policies being implemented in a timely manner in accordance with climate treaties, such as the Paris Agreement
- climate change and a transition to a low-carbon economy (including the risk that FIL Life may not achieve its targets)
- the climate scenario analysis and its underlying process being used by our third party
- the environmental, social and geopolitical risks
- FIL Life's commitment to continue to deliver good customer outcomes
- FIL Life's ability with government and other stakeholders to manage and mitigate the impacts of climate change effectively.

Such forward-looking statements and other financial and/or statistical data involve risk and uncertainty, because they relate to future events and circumstances that are beyond FIL Life's control. Therefore, they should not be regarded as complete and comprehensive.

**Limitations of climate models;** In order to produce this report, we relied upon external climate data providers, their climate and financial related sources, methodologies, and modelling (specifically including scenario modelling). Each of these are subject to ongoing modifications beyond our control. These models can be highly sensitive to and affected by assumptions and a wide range of factors including process followed and the quality of the data being used. As such, these will affect the accuracy and may heavily influence the outputs.

The differences between models can include:

- Differences in how models treat data to produce a figure for the year ending 31 December 2023. when underlying data may be for a different period.
- Differences in overall coverage of different asset types and in particular how derivatives and similar types of investments are treated.
- Differences in the carbon emission estimation models.

This is not an exhaustive list of differences between different models but they do reflect that current regulations and guidance allow for a variety of approaches to these issues . This means that different models may legitimately produce different results.

As the worldwide understanding of climate change effects, data, metrics and methodologies and its impact continues to evolve, FIL Life's materiality assessment and transition plan will continue to evolve, as does the ability to analyse and report information on climate will also improve. As a result, we expect that certain climate disclosures made in this report are likely to be amended, updated, recalculated or restated in the future.

Given the limitations mentioned above, the outcomes may be materially different to our forward-looking statements and targets

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FIL Life relies on its data providers Morningstar Sustainalytics and ISS to ensure that the data is accurate, and that relevant checks have been carried out before it's shared with FIL Life. The data providers are responsible for correctly picking up company-level emissions data where it is available to them. It must also correctly estimate data where it feels it needs to, and address any gaps or inconsistencies. Any mapping of data to sub-industry classifications is the responsibility of the data providers.

Dates and timings can differ between providers. As such it is not possible for numbers to be directly comparable. Morningstar Sustainalytics matches the fiscal year (FY) to the year in which the reporting period ended. In comparison, CDP (an organisation that runs disclosure systems for companies) matches FY to the year in which most of the months have been covered.

Morningstar Sustainalytics has chosen to apply a one-size-fits-all approach across issuers and sub-industries. There is a possibility this could show poor performance for small sub-industries where there are unique carbon emission drivers. While there are issues with emissions data for sub-industries across data providers, some providers choose to apply different methodologies depending on the sub-industry.

Carbon Data provided by Morningstar Sustainalytics

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Report provided by Fidelity

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 Fil Life relies on its third party data providers Morningstar Sustainalytics for its data and methodology and cannot guarantee its accuracy. The data providers are responsible for correctly picking up company-level emissions data where it is available to them. They must also estimate data where they feels they need to, and address any gaps or inconsistencies. Data providers must also map data to sub-industry classifications. Dates and timings can differ between providers, as such it is not possible for numbers to be directly comparable. Morningstar Sustainalytics