



# How Fixed Income Investors can help mitigate Climate Change

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# Fixed Income plays a critical role in helping meet global climate targets

Bondholders' ability to enable the transition to a low carbon economy extends beyond that of an equity holder

## Why we believe bondholders are critical to addressing climate change

- **A larger universe to drive change on climate change** - Bondholders do not only provide credit to public companies, but also private companies, governments, quasi sovereigns and securitised issuers.
- **One of the largest sources of financing globally**<sup>1</sup> - Global private and public debt climbed to USD 281 trillion as at the end of 2020. Global Bond Markets represented USD 124 trillion outstanding at the end of 2020 and of the \$12.1 trillion in 2021 raised in capital markets by companies, \$5.5 trillion was via bond issuance. 4 x the amount raised via equity issuance (around \$1.44 trillion)<sup>2</sup>.
- **Ability to provide decarbonisation financing in multiple ways** - bondholders also have the ability to finance on both issuer and at asset level.

## How we think about addressing climate change through fixed income investments

- Allocating capital to companies across all sectors which are leading in terms of decarbonisation practices and therefore “raising the Climate bar” for the rest
- Engaging with, and investing in, those issuers that are specifically on the decarbonisation journey and who can make a difference in terms of emissions
- Ensuring that when investing in labelled bonds they are part of a company’s overall transition story vs. just a “one-off project”

*“I’m told that you respond very well to intimidation.”*



*“ I used to think if there was reincarnation, I wanted to come back as the president or the pope or a .400 baseball hitter. But now I want to come back as the bond market. You can intimidate everybody.*

**James Carville**

Source: Fidelity International, 2021. <sup>1</sup>WWF, 2021 - Can debt capital markets save the planet? <sup>2</sup>[Companies raise over \\$12tn in 'blockbuster' year for global capital markets | Financial Times \(ft.com\)](https://www.ft.com/content/2021/01/21/companies-raise-over-12tn-in-blockbuster-year-for-global-capital-markets)

# Transitioning to a low carbon economy requires a combination of different levers

....and requires all companies across all sectors and geographies to decarbonise

### Climate Leadership

Companies\* that are adopting decarbonisation practices & tools faster than their peers

- Climate change is something which impacts all companies across all sectors and geographies
- We are looking for companies with leading climate practices within their sector and in approach to decarbonisation

**Company Example:**  
Microsoft

### Climate Transition

Companies\* that are from high emissions sectors or laggards within other sectors with high emissions impact that cannot be ignored

- We are looking for companies with clear decarbonisation targets that are aligned with Net Zero ambitions and/or a clear strategy to pursue alternative low-carbon technologies
- We seek to engage with these companies to support the transition

**Company Example:**  
Fortescue Metals Group

Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

Source: Fidelity International, 2021. \*Investments in companies can be made through corporate bonds or labelled bonds.

# Evidencing our Carbon Credentials (1)

## Current Carbon Profile

Disclosure Number/Weight	Emission Exposure tCO <sub>2</sub> e		Relative Emission Exposure			Climate Performance	
	Scope 1 & 2	Incl. Scope 3	tCO <sub>2</sub> e/Invested	tCO <sub>2</sub> e/Revenue	Weighted Avg Carbon Intensity	Weighted Avg	
Share of Disclosing Holdings			Relative Carbon Footprint	Carbon Intensity	Weighted Avg Carbon Intensity	Carbon Risk Rating <sup>1</sup>	
<b>Portfolio</b>	93.1% / 92.6%	28	264	30.88	81.17	115.24	57
<b>Benchmark</b>	82.8% / 91.7%	63	412	70.04	201.42	235.49	53
<b>Net Performance</b>	10.3 p.p. / 0.9 p.p.	55.9%	36.1%	55.9%	59.7%	51.1%	—

Top Sectors to Emission Attribution Exposure vs. Benchmark						
Sector	Portfolio Weight	Benchmark Weight	Difference	Sector Allocation Effect		Issuer Selection Effect
Communication Services	5.49%	8.13%	-2.63%	0.35%		0.08%
Consumer Discretionary	8.3%	6.86%	1.44%		-0.31%	-0.76%
Consumer Staples	6.32%	6.54%	-0.22%	0.09%		-1.33%
Energy	1.23%	6.43%	-5.2%	18.9%		3.79%
Financials	31.51%	30.8%	0.71%		-0.02%	0.38%
Health Care	6.45%	7.86%	-1.41%	0.1%		0.14%
Industrials	9.67%	8.65%	1.02%		-0.73%	-2.54%
Information Technology	7.41%	6.42%	0.99%		-0.09%	-0.29%
Materials	6.09%	3.45%	2.64%		-16.58%	26.69%
Other	3.91%	2.46%	1.45%		-0.76%	0.48%
Real Estate	5.6%	4.69%	0.91%		-0.09%	-0.22%
Utilities	8.01%	7.72%	0.29%		-1.5%	30.13%
Cumulative Higher (-) and Lower (+) Emission Exposure vs. Benchmark					-0.64%	56.55%
Higher (-) / Lower (+) Net Emission Exposure vs. Benchmark					56%	

Source: Fidelity International, 2022. ISS, February 2022.

# Evidencing our Carbon Credentials (2)

Issuers on an improving path, consistent with Paris Commitments

Portfolio and Benchmark Comparison to SDS Budget (Red = Overshoot)				
	2021	2030	2040	2050
<b>Portfolio</b>	-74.62%	-74.21%	-58.23%	-18.47%
<b>Benchmark</b>	+10.35%	+51.54%	+183.93%	+497.54%

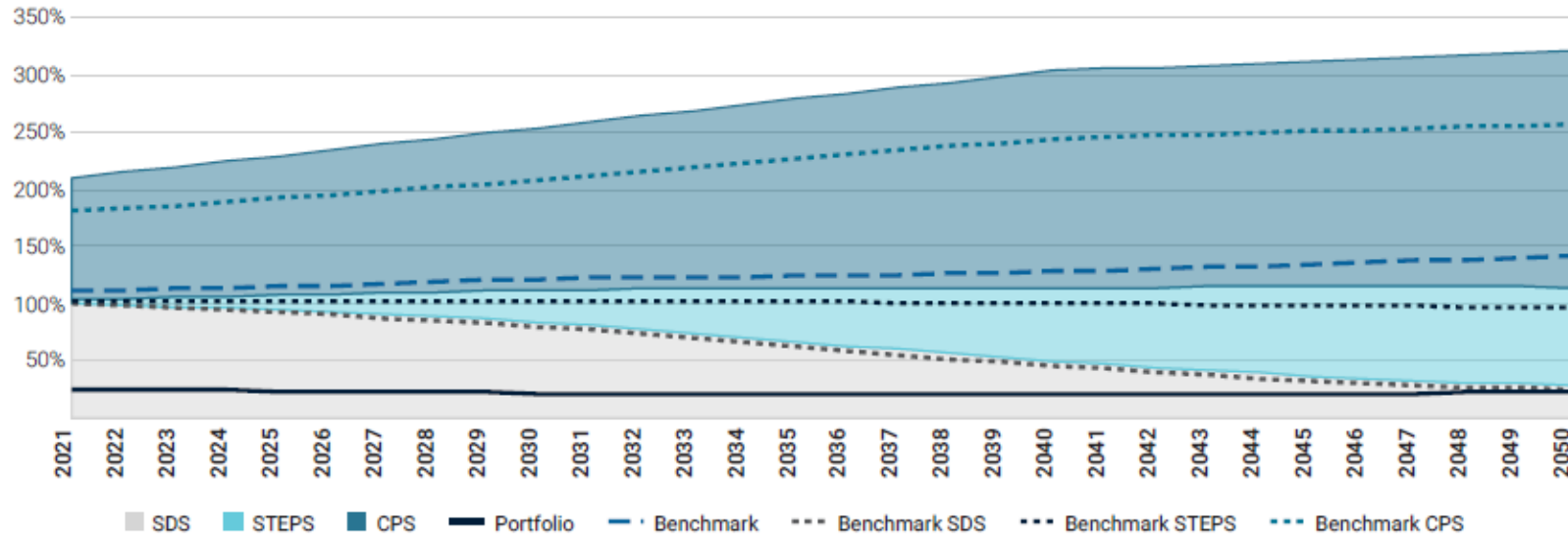
2050

The strategy in its current state is aligned with a SDS scenario for the full analyzed period (until 2050).

1.5°C

The portfolio is associated with a potential temperature increase of 1.5°C by 2050.

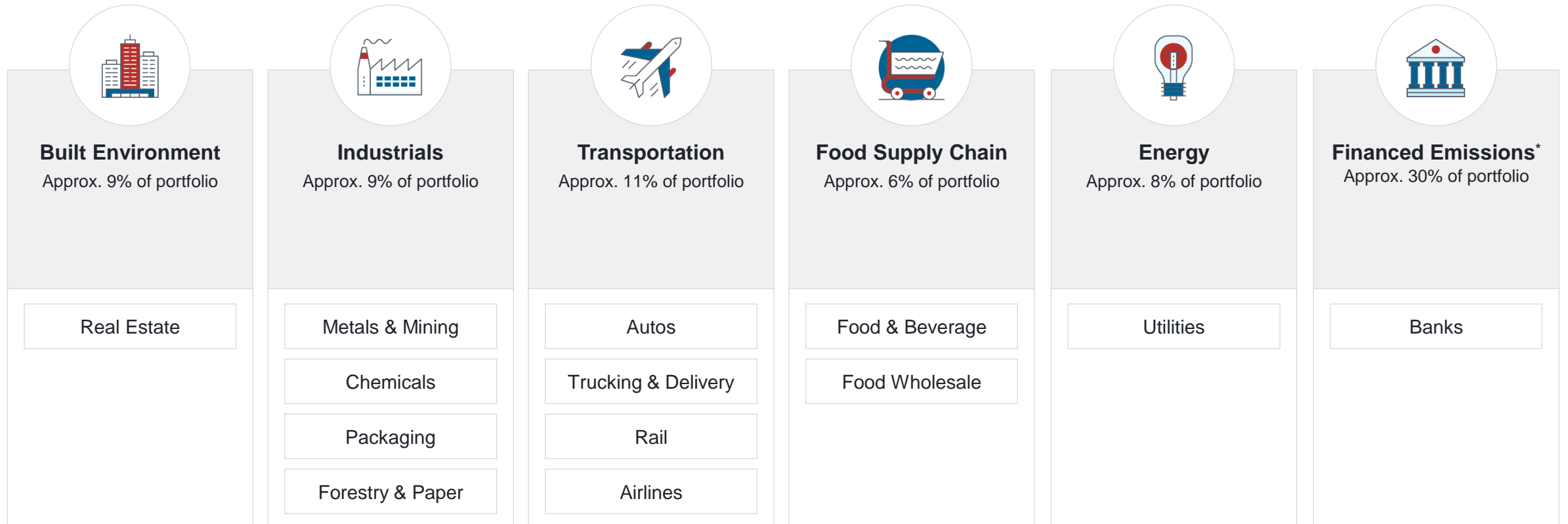
Portfolio Emission Pathway vs. Climate Scenarios Budgets



Source: Fidelity International, 2022. ISS, February 2022 – Key: SDS = IEA Sustainable Development Scenario, STEPS = Stated Policies Scenario, CPS = Current Policies Scenario

# Reaching targets requires high impact areas to decarbonise

Emissions reduction across a few economic sectors has the potential to make a big difference



New pledges lower global greenhouse gas emissions in 2030 by 7.5% compared to prior pledges. To get on track to 2°C, a 30% reduction is needed, whereas a 55% (**25-28 GtCO<sub>2</sub>e**) reduction is needed to get on track to 1.5°C.

Source: Fidelity International, February 2022. Emissions Gap Report 2021 | UNEP - UN Environment Programme. \* Financed Emissions refers to the Greenhouse gas emissions financed by the loans and investments of financial institutions. Portfolio breakdown is for illustrative purposes only.



# Fortescue Metals - Example of an ESG led credit investment

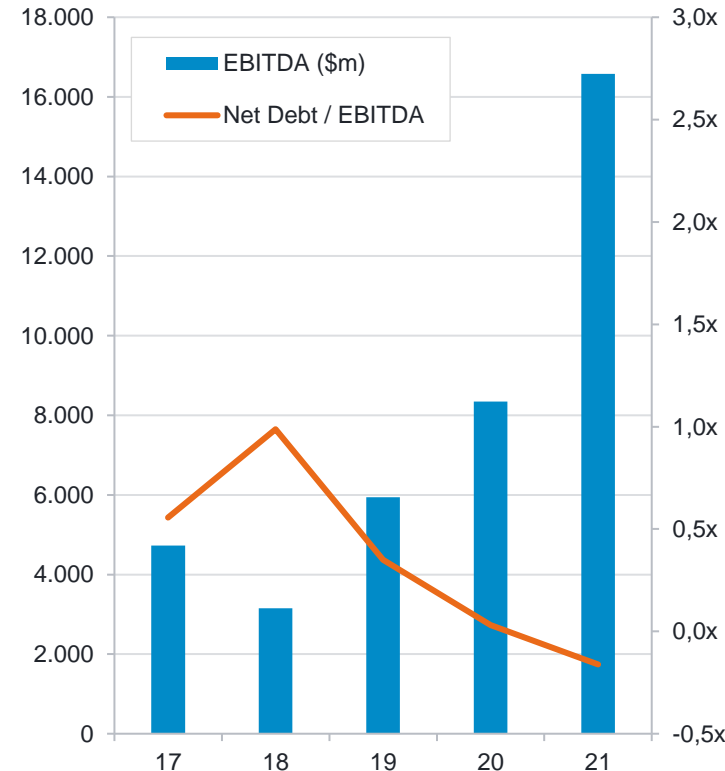


In our view, fundamentals, valuation and ESG are very well aligned

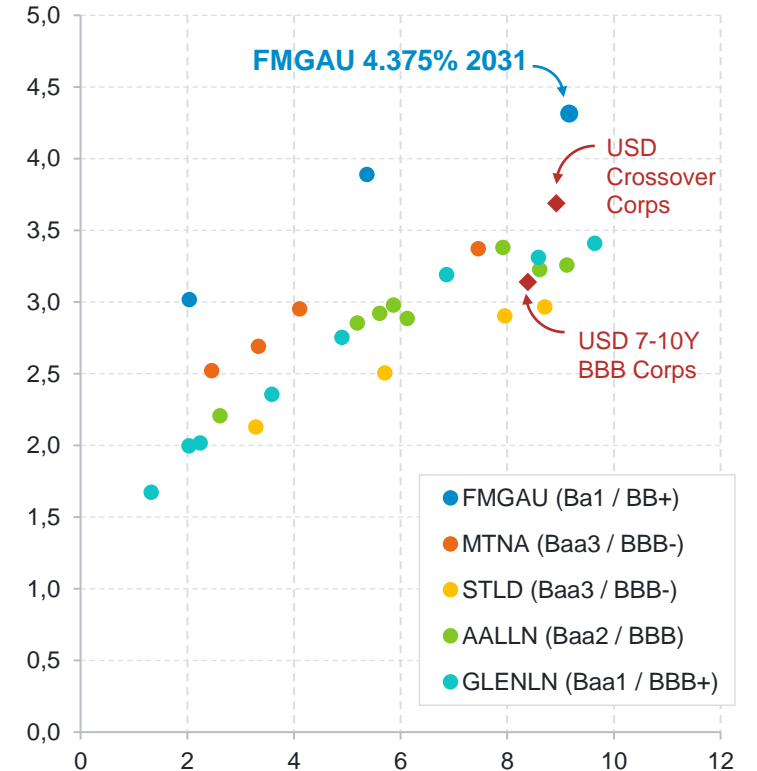
## Fortescue has a clear decarbonisation plan

- 10% of net profit after tax is allocated to a dedicated green energy and industry subsidiary
- A target to produce over 15 million tonnes of green hydrogen annually by 2030
- Investing in renewable energy projects to replace fossil fuel power generation
- Partnering with industrial companies to develop battery and hydrogen powered haul trucks and heavy machinery
- Development of green ammonia production and technology to power locomotives and ships
- Work with steel producers on technical solutions for using hydrogen in steel making

## Fortescue EBITDA and Leverage



## Metals & Mining Yield to Maturity (%)



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Source: Company reports, Bloomberg, ICE Indices; FMGAU = Fortescue Metals, MTNA = ArcelorMittal, STLD = Steel Dynamics, AALLN = Anglo American, GLENLN = Glencore

# Improving biodiversity is key to fighting climate change



Our engagement with Suzano led to its first ever biodiversity target



## What is this about?

- Biodiversity is most at risk in Latin America due to deforestation and climate change.
- Paper and pulp companies rely on fast-growing monoculture plantations covering hundreds of thousands of hectares and these are seen by some as 'green deserts' which threaten whole ecosystems.
- Suzano is the world's largest pulp producer with almost 11mt of pulp capacity.
- Suzano has been at the forefront of linking sustainability performance to its financial strategy through the issue of Sustainability Linked Notes.
- We first engaged with the company in February 2021 – initially to understand why its GHG reduction target appeared unambitious, but also to understand what management were doing on biodiversity as it had yet to commit to a target.
- In late 2021, following a further engagement, Suzano included its first ever biodiversity target: to reconnect 500,000ha of previously unconnected rainforest by 2030. This should create conditions for native animal and plant species to grow and expand their range thus improving the region's biodiversity.
- Our engagement continues.



## Our Engagement & Next Steps



**Initial Engagement Date:** Q1 2021



**Fidelity ESG Rating:** B



**Type of Engagement:** Ongoing Collaborative Engagement

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Source: Fidelity International, 2021.