

Year End 2023



Fidelity Emerging Markets Limited (the Company)

Task Force on Climate-Related Financial Disclosure

30 June 2024 Product Level Report



Contents

1	Climate Metrics	3
2	Governance	6
3	Strategy	6
4	Risk Management	6
5	How climate change is likely to impact this fund	6

Introduction

This TCFD product report aligns with the UK regulatory requirements and with Fidelity's overarching approach as documented in the FIL Limited (The Group, or Fidelity) [TCFD Report](#) including the FIL Investment Services (UK) Limited (FISL) specific disclosures. FISL is the Alternative Investment Fund Manager (AIFM) for this Company. This report aims to provide you with more information on the emissions generated by the companies, or issuers, held by the Company together with further information about Fidelity's approach to climate matters. For a more complete understanding, this report should be read in conjunction with Fidelity's Group TCFD Report.

This Company utilises Fidelity's approach to governance, strategy and risk management and therefore does not materially deviate from Fidelity's overarching approach as documented in the Group TCFD report. As such, this Company's investing approach follows that of the wider Fidelity organisation and can be reviewed in the entity report, alongside an overview below.

1 Climate Metrics

Indicator	Unit	31 December 2022	31 December 2023
Scope 1 and 2 greenhouse gas emissions	tCO _{2e}	46,333	84,096
Scope 3 greenhouse gas emissions	tCO _{2e}	239,896	135,235
Total carbon emissions	tCO _{2e}	286,229	219,331
Total carbon footprint	tCO _{2e} /invested	382	275
Weighted average carbon intensity	tCO _{2e} /revenue	1,145	625
Climate Warming scenario: Implied Temperature Rise Range	°C	Between 2.7 and 3.2 degrees	Between 3.2 and 6.0 degrees

Climate Value at Risk

Selected scenarios

Climate Value at Risk (CVaR) Scenario Analysis Scope 1 & 2											
1.5°C NGFS Orderly				1.5° CNGFS Disorderly				3° C Current Policies			
Policy Climate VaR (Scope 1,2,3)	Technology Opportunities Climate VaR	Physical Climate VaR Aggressive	Aggregated Climate VaR	Policy Climate VaR (Scope 1,2,3)	Technology Opportunities Climate VaR	Physical Climate VaR Aggressive	Aggregated Climate VaR	Policy Climate VaR (Scope 1,2,3)	Technology Opportunities Climate VaR	Physical Climate VaR Aggressive	Aggregated Climate VaR
-7.70%	1.20%	-5.50%	-11.90%	-13.10%	2.20%	-5.50%	-16.40%	0.0%	0.0%	-11.60%	-11.60%

Using the REMIND climate model.

How the metrics should be interpreted

To carbon footprint any Fidelity fund, or a company or issuer held within a fund, we aim to fully align with the Partnership for Carbon Accounting Financials (PCAF) standard. To achieve this, we are using data from our primary climate data provider, Institutional Shareholder Services (ISS). To calculate the carbon footprint of a fund, we measure the emissions financed by a fund, i.e. a claim on how much of a company's, or issuer's, emitted carbon could be attributed to financing provided by the fund's investment.

We also measure what level of emissions, on average, are generated per a unit of a company's, or issuer's, revenue - this gives a number less sensitive to business performance fluctuations. All of the funds are footprinted daily on Carbon Footprint and Weighted Average Carbon Intensity - scopes 1, 2, and 3. This carbon footprinting approach will use Adjusted Enterprise Value (a measure of a company's total value, adjusted for debt) as the denominator for both equity and fixed income funds.

The table below is a guide to help understand the terms used:

Metric	Usage	Description
Scope 1 Greenhouse Gas (GHG) emissions	Measuring direct GHG emissions	Emissions that occur from sources owned or controlled by the reporting company (i.e. a company/issuer held by the fund), i.e., emissions from owned or controlled boilers, furnaces, vehicles, etc.
Scope 2 Greenhouse Gas (GHG) emissions	Measuring indirect GHG emissions	Emissions from the company/ issuer's generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 2 emissions physically occur at the facility where the electricity, steam, heating, or cooling is generated. Traditionally this is calculated alongside Scope 1 at a fund level, using the proportion of total Scope 2 emissions by amount invested.
Scope 3 Greenhouse Gas (GHG) emissions	Measuring all other indirect GHG emissions (not included in Scope 2)	Emissions (not included in Scope 2) that occur in the value chain of the reporting company. Scope 3 can be broken down into upstream emissions and downstream emissions. Upstream emissions include all emissions that occur in the life cycle of a material/product/service up to the point of sale by the producer, such as from the production or extraction of purchased materials. Downstream emissions include all emissions that occur as a consequence of the distribution, storage, use, and end-of-life treatment of the organisation's products or services.
Total carbon emissions	Measuring a fund's total carbon footprint	Absolute GHG emissions associated with a fund - aggregated company / issuer emissions as a proportion of their total based on the fund's holding. This is usually expressed in metric tonnes of CO ₂ e (carbon dioxide equivalent).
Carbon footprint calculations	This is used for a variety of demands, including, client requests, regulatory disclosures, used in portfolio construction, and investment research analysis.	Carbon footprint acts as the main indicator of the company/ issuer's emissions, emitted or financed by an entity - a corporate, an investment portfolio, a government, or a project. Consequently, it enables reporting, target setting, climate action, and scenario analysis. Carbon footprint is expressed in tonnes CO ₂ e per US\$ million in revenues.

Metric	Usage	Description
Weighted Average Carbon Intensity (WACI)	Measuring a fund's exposure to carbon-intensive companies	This measures a fund's exposure to carbon-intensive companies. An investment's emissions are allocated based on its weight within the fund, i.e. the value of the investment relative to the fund's value (at the time of the calculation). A fund's exposure to carbon-intensive companies is expressed in tonnes CO2e per US\$ million in revenues.
Implied Temperature Rise Range	The Implied Temperature Rise metric provides an indication of how companies and	A fund's Implied Temperature Rise measures, in aggregate, a fund's temperature alignment (in °C) to keeping the world's temperature rise to 2°C by 2100. Each company/issuer (invested into by the fund) is assessed for their potential emissions versus a budget allocated by sector and market share. This difference results in an estimated temperature which is then aggregated on a fund level.
Climate Value at Risk		This is an output produced by combining a number of complex models together into one, incorporating modelling of climate science, economics, technology and company financials. These attempt to quantify the future climate transition and physical risks and opportunities in today's value terms. These are expressed as a percentage of an issuer or fund value.
Policy Climate VaR		Policy Climate VaR in MSCI's model quantifies the transitional risk relating to changing policies that drive a climate transition scenario. Under a 'Hot house' scenario there are no further new climate policies, so transition risk is minimal if any at all. For a 'Disorderly 1.5°C' transition, Policy CVaR would be much greater.
Technology Opportunities Climate VaR		MSCI's analysis aims to quantify the potential future sales and profits for an issuer resulting from 'green patents', these are patents from which the issuer would benefit from a transition to a low carbon economy. This aims to represent a quantification of climate opportunities.
Physical Climate VaR Aggressive		This evaluates the potential impact to an issuer or a fund from a set of extreme weather hazards including extreme heat and cold, heavy snowfall, precipitation, wind gusts, tropical cyclones and coastal flooding and sea level rise into the future. There are challenges identifying and mapping issuer assets and evaluating them with these climate models, so they may well be underestimated.
Aggregated CVAR		Aggregated CVAR is the sum of Policy, Technology Opportunities and Physical CVARs.
REMIND climate model		REMIND is a global multi-regional model incorporating the economy, the climate system and a detailed representation of the energy sector. It has been developed by the Potsdam Institute for Climate Impact research.

Gaps in the underlying data and how FIL is addressing these

For climate-related data, Fidelity works with multiple data providers to try and cover as much as the invested universe (of companies and issuers) as possible. Our core provider, Institutional Shareholder Services Inc. (ISS),

has one of the widest coverages of emissions data available in the market, but data gaps do exist due to reasons such as: asset class (e.g. currencies) and lack of disclosure (such as for smaller companies) or challenges involving certain types of derivatives. ISS uses a detailed estimation methodology where possible, but some data gaps remain which we work alongside the data providers to try and minimise. Once raw data is provided (e.g. from ISS), there is an element of both automated and manual aggregation and mapping within Fidelity's systems. Fidelity has quality checks and review systems in place to manage the risk associated our data aggregation processes and minimise any potential gaps. Further information is available in Fidelity's Group TCFD report.

For this fund we have determined a sufficient level of data coverage for the fund's investments is available in order to provide the key metrics above.

2 Governance

Fidelity Emerging Markets Limited, (the Investment Company) has a Board that is independent of the appointed FIL Group investment manager. In addition, FIL Investment Services (UK) Limited is appointed to provide Alternative Investment Fund Manager (AIFM) services. The Investment Company has adopted the FIL Group's climate related policies in relation to the management of this company and therefore the approaches taken to climate matters do not materially deviate from the FIL Group.

The Board of FIL Investment Services (UK) Limited (FISL) relies on FIL Group structures and committees to set the direction and the agenda to manage and oversee climate related risks and opportunities.

More detail relating to Fidelity's governance can be found in the [Group TCFD report](#).

3 Strategy

Fidelity is developing its suite of products and services to align to its climate goals and commitments.

The approach of the wider organisation and can be reviewed in Fidelity's Group TCFD Report.

4 Risk Management

The investment strategy for this Company is managed within the FIL Group and therefore risk management for this Company is aligned with FIL's wider approach, which is further explained in Fidelity's Group TCFD Report.

5 How climate change is likely to impact this fund

Efforts to address the emissions responsible for climate change and its physical impacts pose potential 'transitional' and 'physical' risks and opportunities for every investment type. Transitional factors may include the introduction of new policies, regulations or technologies, while physical factors might include changes to climate patterns, rising sea levels, or severe weather events.

We have provided commentary below as to how we believe this fund, based on its exposure to investment sectors* that are likely to have a material climate change impact, might be affected by the following climate scenarios, as devised by the Network for Greening the Financial System (NGFS). It is likely that our views will evolve over time.

'Hothouse world' scenarios assume only currently implemented policies are preserved, current commitments are not met and emissions continue to rise, with high physical risks and severe social and economic disruption and failure to limit temperature rise.

'Disorderly transition' scenarios assume climate policies are delayed or divergent, requiring sharper emissions reductions achieved at a higher cost and with increased physical risks in order to limit temperature rise to below 2 degrees Celsius on pre-industrial averages.

‘Orderly transition’ scenarios assume climate policies are introduced early and become gradually more stringent, reaching global net zero CO2 emissions around 2050 and likely limiting global warming to below 2 degrees Celsius on pre-industrial averages.

*Generally we have provided scenario analysis commentary where sector exposure is greater than 10%, however for funds that are very well diversified (by sector) we may provide commentary where exposure is below this level.

See table below for a breakdown of this exposure.

Contributing Sectors	% at 31 December 2023
Technology	20.59
Industrials	10.76
Defensive Consumer Products	9.05
Basic Materials	6.26
Energy	2.89
Consumer, Cyclical	2.58

Sector narratives under future climate scenarios

As detailed in the table above the fund is exposed to the following sectors.

The information below discusses the risks and opportunities for these investment sectors under the climate scenarios listed above.

This wording is based upon the IIASA NGFS Remind model using the Scenario analysis narrative tool produced by the Climate Financial Risk Forum, available here on the Financial Conduct Authority’s site: [Climate narrative \(cgfi.ac.uk\)](https://www.cgfi.ac.uk). It is based upon the NGFS scenarios dated September 2022.

These are not forecasts. They are used to explore or highlight how future scenarios might impact investments by sector and businesses.

Technology

The Technology sector includes companies that make computer equipment, data storage and networking products. It covers businesses that design, develop and support computer operating systems and applications. Technology is both hardware and software, electronics and communications.

It’s known as a ‘sensitive’ industry. That means it’s affected by shifts in the economy, but not as much as some other sectors, like Real Estate or Financial Services.

Hardware & Equipment

This sector typically uses a lot of energy making its products. So, a company’s carbon emissions will be much higher if the local electricity grid relies heavily on fossil fuels.

Risks	Opportunities
<p>Extreme weather such as flooding or storms could affect the sector's supply chain and production line.</p> <p>Higher temperatures could affect equipment and cause overheating.</p> <p>Companies that change their processes or equipment to cope with extreme weather conditions and avoid production delays will face higher costs. However, their profits will be steadier.</p>	<p>Worldwide efforts to lower carbon emissions could increase the demand for some products. These could be products needed for electrification and energy storage, or ones that help other businesses reduce their carbon emissions.</p>

■ **In a hothouse world** – physical risks will be happen more often, and be more serious. Companies might have to change where they buy their supplies from. However, this could be an expensive and complicated process.

There are also risks to factories and equipment as extreme weather could affect production and safety.

■ **In a disorderly transition** – physical risks will still affect a company's performance and supply chains.

Risk from new laws and regulations will be high, starting in 2030. New policies will probably support a move away from carbon, so energy costs and carbon taxes will increase.

■ **In an orderly transition** – transition risks are more serious. However, all risks will be better known so the sector will have more time to plan and prepare.

Knowing that carbon taxes will rise, companies may have time to find areas with 'cleaner' electricity grids. These use a higher proportion of renewable energy.

Semiconductors & Semiconductor Equipment

Climate change is likely to affect supply chains and production processes. If companies buy energy, their Scope 2 greenhouse gas emissions could be high. This is more likely to be the case if the local grid relies heavily on fossil fuels.

Physical risks	Transitional risks
<p>Supply chains in this sector are specialised, and parts are hard to substitute. If the supply chains are disrupted by severe weather, it could cause delays in production and delivery.</p> <p>Semiconductors production uses a lot of water. If water becomes harder to get hold of, some companies could have problems keeping their businesses running.</p>	<p>There will be risks to the processes used in making these products.</p> <p>New policies could introduce a carbon tax. Companies will have to increase their efficiency, and this could be expensive.</p>

■ **In a hothouse world** – with no laws introduced to tackle climate change, physical risks will be more serious. Increasingly severe weather events will affect supply chains and stop them from working as well as they did.

Companies may need to spread their supplier base to make sure they can get the parts they need without

delays. This could be more expensive, and increase the cost of making the products. For some companies, access to high quality water will be critical.

■ **In a disorderly transition** – there’s more of a balance between physical and transitional risks. There are still significant risks of extreme weather affecting supply chains. However, they will be less severe than in a hothouse scenario. Problems with water supply will exist, but the risks won’t be as serious. There could be some policy risks starting in 2030. This could include a carbon tax, and higher costs for businesses that generate a lot of GHGs.

■ **In an orderly transition** – transition risk will affect businesses the most. Physical risks will still exist, but laws and regulations will reduce the likelihood of extreme weather events.

Carbon taxes are likely to rise. Businesses can try to reduce their emissions, but most changes they need to make will be very expensive.

Industrials

Industrials includes engineering and construction, and companies that manufacture aerospace and defence products. The sector also covers transport companies – airports and airlines, railroads, marine shipping, trucking and integrated freight and logistics.

It’s known as a ‘sensitive’ industry. This means it’s affected by shifts in the economy, but not as much as some other sectors, like Real Estate or Financial

Transport

The transport sector is responsible for around one-fifth of carbon dioxide emissions (based on data from the United Nations). Its use of carbon will need to be reduced quickly to meet global climate targets.

Risks	Opportunities
<p>Money will need to be spent on improving existing transport infrastructure. The industry will have to develop and start to use low and zero-carbon solutions such as mass electric transport.</p> <p>At the moment, there aren’t many economical low or zero-carbon alternatives for air and maritime transport.</p> <p>Equipment or buildings powered by fossil fuels could face greater risk from new regulations. These could affect profits, the cost of running a business, and value of equipment.</p> <p>Air, land and sea transport systems and infrastructure will be greatly affected by these risks. They could come from heat waves, flooding and rising sea levels. Storms could happen more often, and become more serious.</p>	<p>If transport companies use renewable power, they may have lower energy and fuel costs than competitors using fossil fuels.</p> <p>Consumers may become more aware of the services they use and want to change their habits. This could affect – and increase – the demand for low carbon transport, such as trains.</p>

■ **In a hothouse world** – physical risks will be more serious, and affect a wider geographical area.

Policy risk may be lower with a slower move away from fossil fuels. The cost of moving towards a lower carbon economy will also be lower.

■ **In a disorderly transition** – physical risks will increase and existing transport systems may well become less able to cope.

New laws could force businesses to quickly move away from carbon, starting in 2030. For example, a high carbon tax could cause a shock to the economy, and to the sector’s profits. Companies with older equipment generating higher levels of carbon will be more at risk. This equipment is likely to fall in value, or it might need to be replaced completely.

■ **In an orderly transition** – the move away from carbon will start earlier, but be slower and easier to manage. This will give the sector more opportunities to move towards low and zero-carbon solutions. This is important given how much has been spent on developing factories and equipment, and how long they were designed to last for.

Carbon taxes may slowly start to change the way people trade around the world and this could affect demand.

Capital goods

The sector has some intensive production processes that generate high levels of carbon emissions. It buys and sells materials around the world, so it has some quite complex supply chains.

Risks	Opportunities
<p>The sector could face policies that target a move away from carbon. These could include a carbon tax, or limits on the amount of GHGs a company can produce.</p> <p>The industry could be affected by acute weather events, such as flooding or wildfires.</p> <p>Critical parts and materials could be delayed or hard to get hold of. This could disrupt the supply chain and impact sales.</p> <p>The price of materials will push up costs and reduce profits. It could also cause delays in making goods, or mean that less can be produced.</p> <p>Damage to infrastructure could affect production and reduce profits.</p> <p>Chronic weather events, such as sea level rises and flooding could affect large industrial hubs and plants. These are often based near the sea or waterways.</p> <p>Water shortages could affect competition amongst manufacturers and suppliers.</p>	<p>There could be opportunities to replace parts with lower carbon alternatives. These might be made with recycled materials or parts that aren’t made using fossil fuel energy.</p> <p>There will be opportunities to develop new products . These could be more energy efficient, or use renewable power, not fossil fuels.</p>

■ **In a hothouse world** – climate risks will be more serious and happen more often. Supply chain disruptions will be more common. The sector could cope better by finding new ways to produce their goods. They could also move their factories or protect buildings and equipment from climate-related risks.

Companies could reduce disruption by holding more stock, but extra stock will cost them more. They may need to upgrade equipment and infrastructure to withstand extreme weather conditions.

There will be less pressure on reducing their use of carbon, so transition risk will be lower.

■ **In a disorderly transition** – physical risks will increase, and existing supply chains may struggle to cope. A series of new laws could be introduced. These could force companies to move away from carbon quickly so they could end up paying more for the energy they use. A tax on carbon could also be introduced. Companies might choose to make their products using lower carbon solutions. They might even change the products they make.

A rapid move away from carbon starting in 2030 might increase production costs. Companies that have already moved towards renewable energy will be in a better position.

■ **In an orderly transition** – there will be more certainty around policy, so companies will have longer to become more efficient. They will be able to benefit from greater efficiency as changes are made across the industry.

A rising carbon tax could be an advantage for companies with more efficient processes. It will also help if they're based in countries or regions that already use cleaner energy.

Defensive Industries

Defensive consumer industries

Consumer businesses are known as 'defensive' if they're in a good position to cope with shifts in the economy. That means they provide services that people need in both good and bad times.

Food and drinks, household and personal products, packaging and tobacco are 'defensive consumer' businesses. Discount stores and confectioners are too, along with companies that process and package foods. Businesses that supply food products to shops and restaurants are also included.

Food, Beverages and Tobacco

Companies involved in food, drink, and tobacco production face some big challenges. Some of the processes use a lot of water, and some produce high levels of carbon.

Risks	Opportunities
<p>There could be a growing preference for lower carbon food types. This could lead to people eating less meat, and more demand for vegan and vegetarian food. It would affect the demand for, and cost of food containing meat.</p> <p>Policies may aim to lower emissions to meet global climate targets.</p> <p>Carbon taxes or environmental regulation could prevent further deforestation or nature-related pollution. This could limit the availability of new agricultural land. It could also affect the cost of meat production, soya beans and palm oil, for example. Factories and equipment could also drop in value.</p> <p>Fertiliser and intensive agriculture both produce a lot of carbon. New laws could be introduced. This might include a carbon tax.</p> <p>Companies may need to spend more on research and development to increase their productivity and reduce emissions.</p> <p>Extreme and acute weather, such as flooding, wildfires and droughts affect productivity and growth of crops. It can also cause damage to buildings and equipment.</p> <p>The supply chain could be disrupted and this may delay deliveries. Certain crops could become more expensive to produce. In some locations, it may not be possible for them to be grown at all.</p> <p>Chronic impacts include increased sea level rises and flooding. Higher average temperatures could also affect growth of crops.</p> <p>Drinks and agricultural production often use a lot of water. If water becomes more expensive or difficult to source, it could become harder to produce food and drink. Costs could increase sharply.</p>	<p>Companies that are plant-based, or ones that can develop and produce meat alternatives on a large scale, may see a greater demand. This will increase their customer base, and their profits.</p> <p>Crop prices could increase because of costs and growth in the population. But as temperatures rise, there may be opportunities to grow new crops.</p> <p>There may also be opportunities for new food and drink technologies. These might use less water, or be more resistant to flooding, droughts and pests.</p>

■ **In a hothouse world** – there will be more risk from extreme weather. Companies might need to move operations or supply chains to regions that are less affected as global temperatures rise.

Drinks companies could come under pressure if water is harder to get hold of. Companies that use non-perishable ingredients may need to increase their stock levels. This would make them better able to cope with supply chain disruptions.

Some crops may be harder to grow, and this could affect food prices. It might be possible for companies to pass on extra costs to customers. But if not, price rises could lead to less demand and lower sales.

■ **In a disorderly transition** – starting in 2030, policies could introduce a tax on carbon, set deforestation limits, or change the way land is used. This could affect the availability of the things a company might need to make its products, such as seeds, fertilisers, pesticides, equipment or animal feed. It could also push up operating costs. Extra costs will also come as companies improve their processes to reduce carbon emissions.

Because this is happening so quickly, policies designed to manage the climate will be inconsistent. This will bring more challenges. For example, if there's a ban on importing products linked to deforestation, it could be harder to sell them into specific markets. This could well require more expensive and complex supply chains.

■ **In an orderly transition** – physical risks will be more moderate. Different countries are likely to have similar policies and rules. The sector will have longer to prepare for the possible policy risks that come from moving away from carbon.

Companies with more efficient production processes and those that have already widened their supply chains will be in a better position to deal with these challenges.

Cyclical industries

Basic Materials

The Basic Materials sector includes companies involved in metals and mining, and those that make chemicals, fertilisers, building materials and paper products. It also includes companies that produce, supply and sell aluminium, copper, steel and precious metals.

It's a 'cyclical' industry. This means it's affected by shifts in the economy. When the economy is good, it's likely to grow. If the economy isn't performing well, it will tend to shrink.

The sector plays an important part in helping the world economy move towards net zero. Materials will be needed to protect infrastructure and communities against some of the physical risks that climate change will bring. The sectors provide materials that help other industries cope with climate change, for example, for electrification and batteries. Because of this, it's likely that demand for materials will remain high.

Risks	Opportunities
<p>Mining</p> <p>As we move to a lower carbon economy, the demand for coal is likely to fall. This could affect profits and the value of equipment could fall.</p> <p>Mining uses a lot of energy, especially when getting base and precious metals from the ground and processing them. These could be taxed and would increase the cost of production.</p> <p>Copper, iron, gold and zinc are often mined in areas where water can be hard to come by. As this gets worse, mining could become more expensive and the industry may not be able to pass these costs on to customers.</p> <p>Too much rain could cause mines to flood or make them difficult to access.</p> <p>High temperatures and periods of intense heat could make it difficult or dangerous to work. This could affect productivity.</p>	<p>Mining</p> <p>There may be an increase in demand for minerals needed to change energy use. For example, copper, lithium and nickel are used for electrification and battery storage.</p> <p>Some solutions could help the sector reduce its use of carbon. This could be by using green hydrogen to power industrial production, for example.</p>
<p>Materials</p> <p>The materials sector uses a lot of energy. Steel, glass, aluminium and ammonia production in particular.</p> <p>Chemical processes used in the production of cement generate high levels of greenhouse gases. Higher taxes in the future could increase costs to the industry.</p> <p>Changes to the climate could make it more difficult to supply materials around the world. This could affect how businesses process some materials.</p>	<p>Materials</p> <p>There could be more investment into the materials needed to make infrastructure better able to cope with physical risks, like flooding or heatwaves.</p>

■ **In a hothouse world** – extreme weather events, such as hurricanes or floods, will happen more often, and have more serious effects. All sectors may need to make changes to help them cope. They might need to invest in new or improved physical infrastructure. This could be a sea wall to prevent storm surge, or an upgrade that protects a building from flooding, storms or heatwaves.

These projects will increase the demand for building materials, especially base minerals, steel and cement. However, there's also a risk that production and processing equipment will be affected by bad weather conditions. Extreme weather like flooding and heatwaves could also affect production and supply chains, making materials harder to get hold of.

There may be less transition risk from a move towards a lower carbon economy, but there will also be fewer climate opportunities. The world will be slower to make changes that improve energy efficiency and reduce the effects of greenhouse gases.

■ **In a disorderly transition** – the risks could be highly disruptive, starting in 2030. At the moment, there aren't many low or zero-carbon alternatives available, and the ones that are available are costly. So, if a company quickly needs to reduce the amount of carbon it uses, it might have to choose an expensive way of doing it.

Carbon Capture, Utilisation and Storage (CCUS), for example, is a way of capturing CO₂ and reusing it for other things. However, it's expensive and it might not be possible to pass on those extra costs to customers.

Different countries and regions will have different policies, so activities that use a lot of carbon will reduce at different speeds. If a company is already energy-efficient, it will be able to manage these risks better.

It will also manage better if most of its customers and competitors have the same laws.

■ **In an orderly transition** – if policies are brought in to reduce carbon, all sectors will need to start projects to help them cope with the change. The Basic Materials sector will need to spend more to meet the demand.

But policies could also bring more certainty and consistency. There could well be better planning. Money could be spent sooner on developing, testing and scaling low or zero-carbon solutions. This is a more efficient and cost-effective way of bringing down overall emissions. It could also help to reduce some of the economic effects.

Energy

The Energy sector includes companies that produce, refine and sell oil and gas, and those that own and run oilfield pipelines. It also includes companies involved in other energy sources such as thermal coal and uranium.

Energy is known as a 'sensitive' industry. It is affected by shifts in the economy, but not as much as some other sectors, like Real Estate or Financial Services.

The global energy industry will need to change quickly to limit warming to 1.5°C. This could introduce some business challenges. There could also be some high costs involved in meeting the requirements of new policies.

Oil, gas and fossil fuels

Fossil fuels produce more than 70% of global GHG emissions. (IIJCC_AR6_WGIII_SPM.pdf) In 2020, fossil fuels provided about 80% of the world's energy supply. (Energy Mix - Our World in Data)

Risks	Opportunities
<p>Risks will come from reducing the use of fossil fuel energy and moving towards low and zero-carbon energy solutions.</p> <p>It's likely that energy companies will face less demand and lower prices.</p> <p>Without a cost-effective way of capturing CO₂, traditional fossil fuel sources will become obsolete. This means they'll stop being needed. The industry will need to switch to low and zero carbon energy sources.</p> <p>Companies that don't need to spend as much on production, and have equipment with a shorter lifespan will be better placed competitively if oil and gas demand falls.</p>	<p>Opportunities will come if companies can find cost-effective ways of capturing and storing CO₂.</p> <p>In the short term, there are opportunities to reduce methane leaks from pipelines. There may also be ways to reduce 'gas flaring'. This is a method used to dispose of large amounts of petroleum gas during crude oil extraction.</p>

■ **In a hothouse world** – there will be a low transition risk, but physical risks will be higher. Oil and gas companies could be more at risk from the increase in physical climate changes than many other sectors.

Rising sea levels and storm surges could affect refineries near the coast. Water shortages could lead to more competition with other sectors.

When permafrost (which is ground that stays completely frozen for two years or more) thaws, it can become unstable. This could cause pipeline subsidence – shifts in the ground that can cause the pipe to become unstable. It would also increase maintenance costs.

Extreme weather could affect construction projects and offshore production, while flooding can damage facilities. Chemicals from coal seam gas could leak onto agricultural land.

■ **In a disorderly transition** – the sector is likely to be significantly affected, but these effects will be delayed until the 2030s. Coal and gas will be the first to be affected and see the worst effects. There would be a significant shock to the sector at this point, as demand begins to fall rapidly.

■ **In an orderly transition** – oil and gas will continue to play a role in meeting energy demand in the short to medium term. However, the way people use energy is likely to change. A large-scale shift to renewable energy is likely to lower the demand for oil and gas. This will make energy companies, and the whole sector, with less demand and more competition.

Profits will be reduced as demand for electric vehicles and renewable heating solutions grows. The cost of industrial processes will rise. Costs will also increase because of carbon taxes and higher pricing. If demand for fossil fuels falls, the value of equipment will also fall. Companies may need to put more of their money into renewable energy.

In the long term, fossil fuels could provide only about a quarter of the world's energy supply, as renewables and biomass grow to about 68%.

Cyclical consumer industries

Consumer businesses are known as 'cyclical' if they're affected by shifts in the economy. When the economy is good, they're likely to grow. If the economy isn't performing well, they will tend to shrink.

The sector includes auto and truck dealerships, auto-parts manufacturers, and recreational vehicles such as motor homes and campers. It covers restaurants, lodging facilities, speciality retail and travel companies, department stores and luxury goods.

Automobiles and Components

The automobile and component sector faces some big challenges including policies changing. The supply and delivery of parts could also be affected by extreme weather. 'Automobiles' includes cars, but also trucks, lorries, buses and vans.

Risks	Opportunities
<p>Several countries have already announced they are phasing out internal combustion engines (ICE) in passenger vehicles. This could in future apply to more type of vehicles such as light trucks or vans. This could mean lower profits for the industry as a whole. It could also reduce the value of equipment for some auto manufacturers.</p> <p>New laws could aim to lower the emissions produced by making the vehicles. They could also limit the pollution that comes from driving them.</p> <p>Companies can meet these limits by using new and renewable technologies, but it will need greater investments to be made, and maybe initially more expensive to make.</p> <p>Low and zero-emission vehicles use roughly one-third of the parts of a traditional ICE vehicle. This could mean increased competition for the companies that produce the parts.</p>	<p>As new technology is developed to help the industry move towards a low carbon economy, there could be opportunities for growth. This could be by using electricity to power a wider range of vehicles, and possibly in the longer term, hydrogen-fueled cars.</p>

■ **In a hothouse world** – the sector buys car parts from around the world. Many of the vehicles it makes are also sold to other countries. This means it could easily be affected by extreme weather. The 2011 floods in Thailand show how weather can affect the sector.

■ **In a disorderly transition** – a rapid move towards low or zero-emission vehicles starting in 2030 could reduce sales for companies that supply traditional ICE vehicles and parts. They might need to spend more making changes to keep up with businesses that have moved away from carbon. This could lead to higher costs that they may not be able to pass on to buyers.

Companies further forward in the move towards low or zero-carbon vehicles won't have to make as many changes. Their profits may be higher, and they may be in a better place to keep or grow their customer base (their share of the market). That means they'll be able to sell as much, or maybe more than before.

■ **In an orderly transition** – companies will have a clearer path to change the way they run their businesses. They'll also have more time to start producing low or zero-carbon vehicles. However, winding down the sales of traditional vehicles, and changing to new energy vehicles brings its own risks. They'll need to spend more on research and development.

Newer technology will open the door to new businesses with new ways of doing things. This increase in competition could continue to put pressure on the number of vehicles a company produces, and its size of its profits.

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