

Year End 2023



# Fidelity Special Values PLC (the Company)

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Task Force on Climate-Related Financial Disclosure

30 June 2024 Product Level Report



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# 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 <sub>2e</sub>	64,982	77,044
Scope 3 greenhouse gas emissions	tCO <sub>2e</sub>	1,219,479	1,132,429
Total carbon emissions	tCO <sub>2e</sub>	1,284,461	1,209,473
Total carbon footprint	tCO <sub>2e</sub> /invested	969	847
Weighted average carbon intensity	tCO <sub>2e</sub> /revenue	1,402	907
Climate Warming scenario: Implied Temperature Rise Range	°C	Between 2.7 and 3.2 degrees	Between 1.5 and 2.7 degrees

### 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
<b>Scope 1 Greenhouse Gas (GHG) emissions</b>	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.
<b>Scope 2 Greenhouse Gas (GHG) emissions</b>	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.
<b>Scope 3 Greenhouse Gas (GHG) emissions</b>	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.
<b>Total carbon emissions</b>	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 <sub>2</sub> e (carbon dioxide equivalent).
<b>Carbon footprint calculations</b>	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 <sub>2</sub> e per US\$ million in revenues.
<b>Weighted Average Carbon Intensity (WACI)</b>	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 CO <sub>2</sub> e per US\$ million in revenues
<b>Implied Temperature Rise Range</b>	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.



## 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 Special Values PLC, (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
Energy	10.83

### 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.

#### 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 1.5oC. 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. (IIPCC\_AR6\_WGIII\_SPM.pdf)

In 2020, fossil fuels provided about 80% of the world’s energy supply. (Energy Mix - Our World in Data)

See table below for a breakdown of this exposure.

Risks	Opportunities
Risks will come from reducing the use of fossil fuel energy and moving towards low and zero-carbon energy solutions.	Opportunities will come if companies can find cost-effective ways of capturing and storing CO2.  In the short term, there are opportunities to reduce methane leaks from pipelines. There may also be ways

Risks	Opportunities
<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>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%.

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