



T. ROWE PRICE INTERNATIONAL LTD
CLIMATE-RELATED FINANCIAL
DISCLOSURE IN LINE WITH
TCFD RECOMMENDATIONS
INAUGURAL REPORT 2022



PUBLISHED 30 JUNE 2023

The background of the entire page is a close-up photograph of a green leaf covered in numerous water droplets of various sizes. The droplets are bright green and highly reflective, creating a shimmering effect. The leaf's texture is visible between the droplets.

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“Climate change poses a significant risk to the global economy and the stability of financial markets. We believe a smooth transition will create a more stable economic environment, reduce uncertainty and enable business investment, which should result in better long-term financial outcomes for our clients.”

Robert Higginbotham

CEO of T. Rowe Price International Ltd

A Message From the CEO of T. Rowe Price International Ltd

On behalf of the Board of Directors of T. Rowe Price International Ltd (TRPIL, the TRPIL Board) I am pleased to present our TCFD Entity Report.

This report is based on the Task Force on Climate-related Financial Disclosures (TCFD) reporting recommendations implemented by the UK Financial Conduct Authority (FCA), as they apply to FCA authorised Asset Managers (together, the Rules).

This report provides climate-related financial disclosures covering the overall assets managed by TRPIL for TCFD in-scope business, meaning the portfolio management services it provides to its clients.

Obligations

The Rules require UK Asset Managers that exceed certain assets under management (AUM) thresholds to make mandatory entity-level annual disclosures. TRPIL is in scope, and the first disclosure requirement covers the calendar year 2022.

This entity-level report will set out how TRPIL takes climate-related matters into account in managing investments on behalf of its clients.

Separately, as an in-scope firm, TRPIL must also make disclosures (and provide climate-related metrics) on its products and portfolios. These will be made available at the specific request of certain eligible clients.

The Board and I share collective responsibility for ensuring that TRPIL complies with the Rules on a 'comply or explain' basis, which is to say we have made every reasonable effort to comply with the Rules, but where it is not reasonable or proportionate to do so, we will explain why.

Climate Change and Journey of Transition

Climate change poses a significant risk to the global economy and the stability of financial markets. We believe a smooth climate transition will create a more stable economic environment, reduce uncertainty and enable business investment, which should result in better long-term financial outcomes for our clients.

The transition of the UK and wider global economy towards net zero will require high-quality information on how climate-related risks and opportunities are being managed. This means greenhouse gas (GHG) emissions data will need to be disclosed at security, issuer and portfolio level.

The FCA's work supports the UK's commitment to mandatory TCFD-aligned disclosure obligations across the UK economy by 2025. Nonetheless the FCA acknowledges data and methodological challenges are likely to persist during this transitional period.

At present, reliable climate data from many issuers of listed securities are limited, and the mandatory disclosure rules for UK-listed securities only go back as far as 2021. Moreover, issuers in many other countries are not required to make TCFD-aligned disclosures on anything other than an elective basis. Consequently, there is limited access to comprehensive and reliable data for all securities and issuers held within every portfolio.

T. Rowe Price has invested in sourcing data from third party vendors as necessary. Where this data is unreliable or based on proxies, we augment it with our own investment analysis where it is possible to do so. This covers information gleaned from our own direct engagement with investee companies, which furthers our aim of making reliable disclosures that are fair, clear and not misleading. In the interests of continued transparency, initial data disclosures may be subject to change when more reliable data become available. Readers may also find the Glossary of Terms section useful when reviewing this report.

T. Rowe Price Group Interdependencies

Intra-group dependencies exist between TRPIL and its group affiliates, which furnish TRPIL with delegated portfolio management and ancillary services, and vice versa. Obligations also arise at the level of TRPIL's listed group parent T. Rowe Price Group, Inc. under the Securities and Exchange Commission TCFD disclosure rules for US-listed entities. Given the Group framework, some sections within this report may be explained in the same context as the Group's overall ESG Corporate Report (as further described below).

Summary

We hope you will find this inaugural report useful. We look forward to enhancing it over the course of our ESG reporting journey.



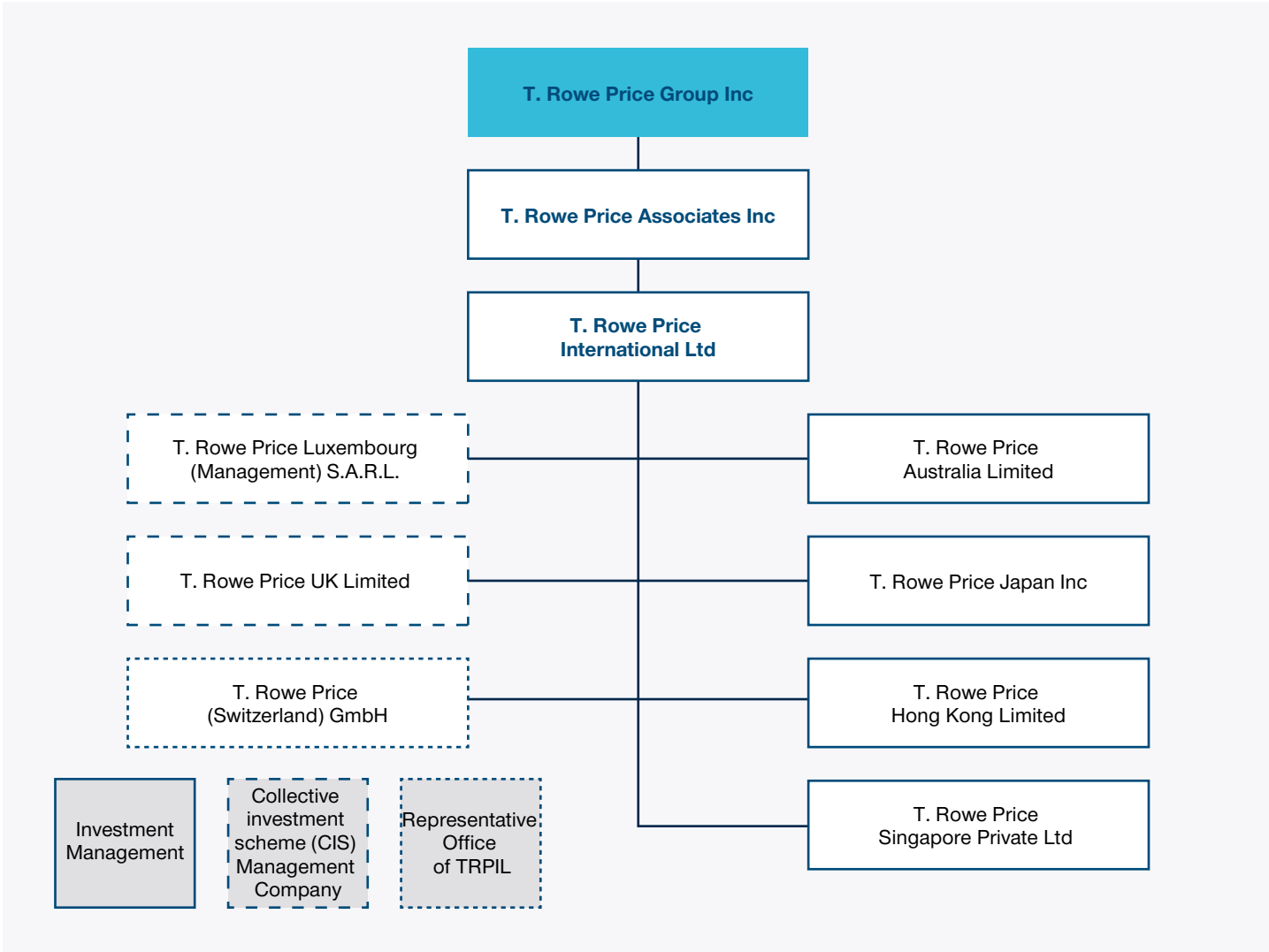
Robert Higginbotham
CEO of T. Rowe Price International Ltd

Governance

As a global investment group, T. Rowe Price Group, Inc. (the firm, TRPG, the Group, we, our, or T. Rowe Price) publishes a global annual report (the ESG Corporate Report) based on the frameworks proposed by the TCFD and the Sustainability Accounting Standards Board (SASB). Overall governance of the Group is set out in the ESG Corporate Report. TRPIL's own approach to governance, strategy and risk management is aligned with the broader Group's approach, and the content of this report can be viewed in that context.

The Board of Directors of TRPG is responsible for setting the Group's strategy, including ESG accountability. This is implemented through the Group committees, delegations, and Group companies, including TRPIL. The TRPIL Board appoints the CEO of TRPIL to implement this strategy outside the United States. A simplified organisational structure is shown below:

Simplified TRPIL Structure Chart



Source: T. Rowe Price.

Board Oversight of Climate-Related Risks and Opportunities

The TRPIL Board has ultimate responsibility for the overall management of TRPIL. TRPIL's governance arrangements enable the TRPIL Board to deliver effective and prudent management to ensure TRPIL operates in a manner that promotes the integrity of the market as a whole and the interests of TRPIL's clients.

The TRPIL Board's responsibility includes approval and oversight of TRPIL's strategic objectives and risk strategy, defining and implementing the governance framework, oversight of TRPIL's financial and operational controls, and compliance with applicable legal and regulatory requirements. The TRPIL Board also provides oversight over TRPIL senior management. The TRPIL Board holds quarterly board meetings where it receives reporting on TRPIL's investment strategies and operations and the effectiveness of its systems and controls, and the TRPIL Board also holds multiple ad hoc meetings as needed to address other important topics.

T. Rowe Price's climate-related investment strategies, opportunities and risk appetite are set at Group level. The TRPIL Board is then responsible for oversight of the particular investment strategies TRPIL manages on behalf of its clients. In respect of climate-related risks and opportunities as they relate to investment strategies, TRPIL relies

upon the wider committee framework set out below to discharge its oversight responsibilities. Standalone training on specific areas is provided to the TRPIL Board as appropriate to enhance its knowledge.

FCA Senior Managers and Certification Regime

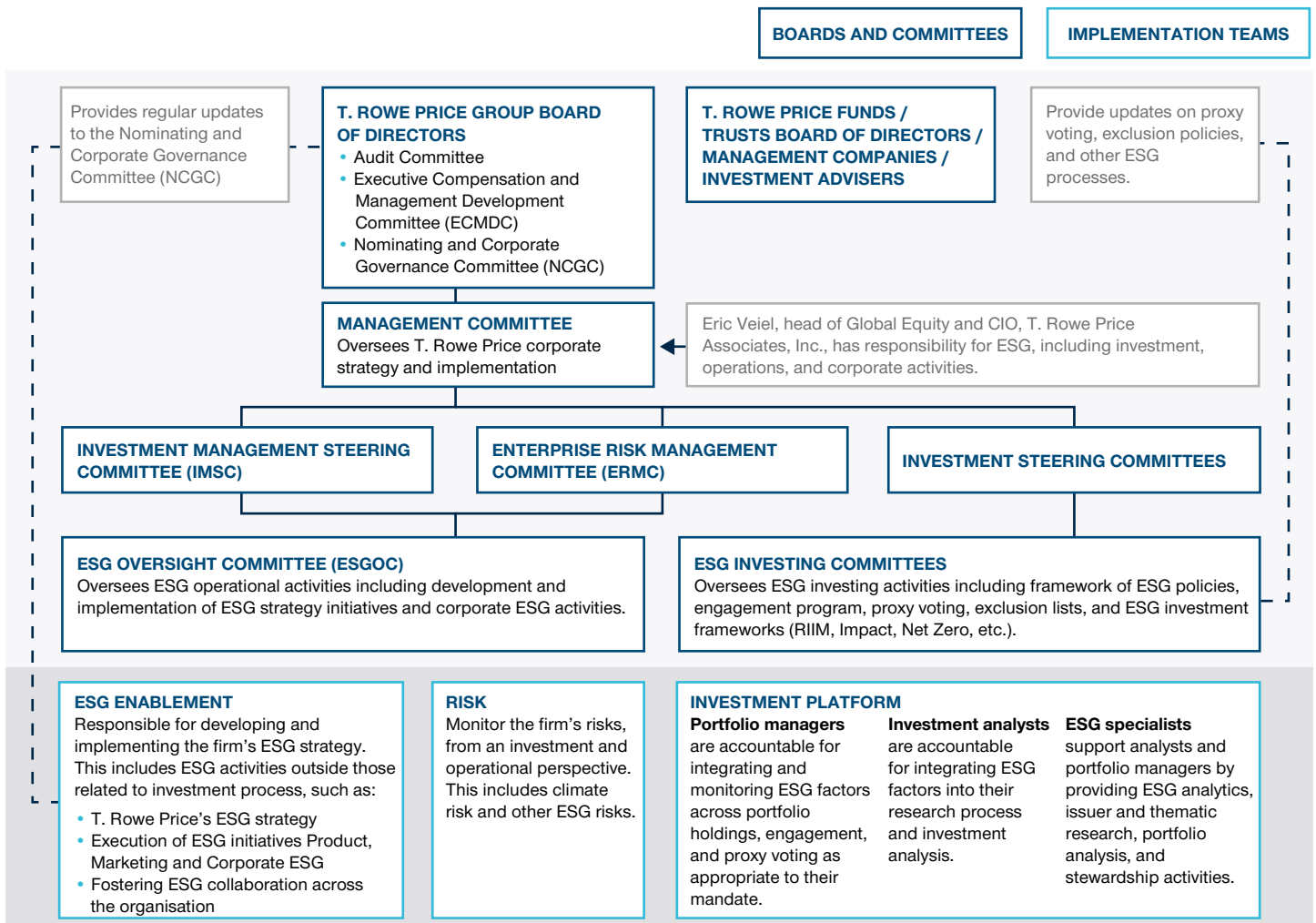
From a UK regulatory perspective, as an enhanced Senior Managers and Certification Regime (SMCR) firm, TRPIL, through the TRPIL Board, has approved a senior manager with responsibility for leading TRPIL's ESG agenda (the Senior Manager), covering responsible investing, governance, impact investments, enablement, regulatory research and proxy voting. The Senior Manager provides monthly reporting to the TRPIL CEO, who is responsible for the conduct of the whole of TRPIL's business, and attends TRPIL Board meetings as required to update and inform on TRPIL's ESG agenda, including climate-related risks and opportunities.

Senior Management's Role in Assessing and Managing Climate-Related Risks and Opportunities

To ensure the firm appropriately identifies and manages potential ESG-related risks and opportunities, such as climate risk, we have incorporated ESG considerations across the Group's core business functions, which also apply to TRPIL.

Accountability

The following chart illustrates the Group's ESG accountability framework.



Source: T. Rowe Price.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee (NCGC) is a Group Board committee and oversees ESG across the firm. This includes ESG factors related to the firm's operations and investment activities. In 2020, amendments were introduced for the NCGC charter to monitor performance objectives and progress against our corporate goals and targets for climate-related issues. Additionally, the NCGC receives updates on the firm's ESG activities from the ESG Enablement team (which is described below).

Management Committee and Enterprise Risk Management Committee

The Group Board's Management Committee (MC) assesses climate-related risks and opportunities via the Enterprise Risk Management Committee (ERMC) which is chaired by the firm's Chief Risk Officer (CRO). Additionally, climate-related risks and opportunities related to investment processes are monitored through the Investment Steering Committees for our Equity, Fixed Income and Multi-Asset Divisions.

In 2022, responsibility for ESG investing and corporate sustainability was consolidated under Eric Veiel, head of global equity, chief investment officer and a member of the MC. Under Eric Veiel, the ESG Enablement and ESG Investing teams are responsible for developing and managing the firm's sustainability initiatives in their respective areas of focus. Day-to-day tasks involve the identification, assessment, tracking and mitigation of climate risks and opportunities.

ESG Enablement and ESG Oversight Committee

In recognition that ESG activities are present across multiple operating functions for investment management firms, the firm created a new global ESG Oversight Committee (ESGOC) in 2023. Chaired by the head of ESG Enablement, the ESGOC, a central and global oversight body, will help support governance around our ESG activities and report into the Investment Management Steering Committee, with regular updates to the ERMC. Eric Veiel and the firm's CRO serve on the ESGOC.

The ESGOC is responsible for:

- Driving T. Rowe Price's ESG strategy
- Ensuring coordinated, consistent and prioritised execution of ESG initiatives and management of ESG risks
- Fostering ESG collaboration across the organisation
- Embedding operational support for ESG across the organisation at scale

The firm also created the ESG Enablement team in 2022 for the purpose of developing and implementing T. Rowe Price's firmwide ESG strategy as well as fostering ESG collaboration across the organisation.

ESG Investing Committees

Oversight of ESG investing policies, ESG integration, sustainable and impact investment, engagement and proxy voting processes resides with T. Rowe Price's ESG Investing Committees, made up of senior leaders, managers, analysts and ESG specialists at the firm.

The Group's Investment Policy on Climate Change sets out the governance approach for the integration of climate risks into our investment process. This applies across the Group and at the TRPIL level in respect of the investment strategies TRPIL manages for its clients. ESG factors, including climate-related risks and opportunities, are embedded across T. Rowe Price investment research platforms.

The TRPIL SMCR senior managers responsible for investment activity also have ESG Investing Committee membership, providing a further oversight and information link to the TRPIL Board and CEO regarding ESG issues, risks and opportunities.

Audit Committee

The Audit Committee is a Group Board committee. It considers ESG matters as they impact any disclosures in the Group's financial statements, including climate-related risks. In addition, the Audit Committee receives updates from the firm's CRO and regularly discusses ESG-related legal and regulatory developments with the firm's general counsel.

Executive Compensation and Management Development Committee

A Group Board committee, the Executive Compensation and Management Development Committee (ECMDC), has responsibility for considering how ESG matters, including climate-related risks and opportunities, may impact management compensation. The ECMDC considers the firm's ESG efforts when reviewing and approving general salary and compensation policies for management.

Other Resources

Our organisation also relies on additional resources to identify and assess climate-related risks and opportunities and scope possible adaptation and mitigation strategies. These include:

- Shareholder engagements
- Trade associations
- ESG benchmarking, surveys and ratings
- ESG disclosures (such as the SASB standards and TCFD-aligned disclosures) and sustainability reporting frameworks, which we believe provide management, clients, and stakeholders decision-useful information on material ESG issues

Strategy

T. Rowe Price identifies the most significant climate-related risks to its business as:

- impact on investment performance,
- impact on client preferences for investment products and
- impact of acute disruptions brought on by major weather events as well as chronic implications of climate change.

Over the past years, the firm's corporate strategy has evolved to mitigate climate risks and benefit from potential opportunities. In 2017, we strengthened ESG analysis and stewardship as a core capability on our investment research platform, which totalled 39 investment personnel full time dedicated to ESG, as of 31 December 2022. Given the data-intensive nature of ESG research and the fact that ESG data has unique qualities differentiating it from traditional financial data, T. Rowe Price has also built a technology team dedicated to supporting this effort. Recognising the cross-functional capabilities required to successfully implement an ESG strategy, the ESG Enablement team was established in 2022, as mentioned above. It possesses expertise in strategy, product, marketing and legislative affairs, among other functions, and was designed with the intent of fostering ESG collaboration across the organisation.

The work done by these teams factors climate-related risks and opportunities into investment processes and decisions relevant to the products and investment strategies offered by T. Rowe Price. In addition to growing its ESG investment, technology and enablement teams, T. Rowe Price has launched investment products with specific climate-related mandates (such as the impact strategy range) as well as other products and strategies that promote environmental and social objectives.

Identifying Climate Risks and Opportunities

Asset managers have a significant impact on climate through the investments made on behalf of clients. T. Rowe Price believes that climate risks and opportunities can impact investment performance and client demand for investment product and service offerings. The process for identifying, assessing and managing climate-related risks and opportunities is outlined in the Risk Management section of this report.

T. Rowe Price expects that financial market performance will experience more volatility in the event of a delayed and/or disorderly

transition to net zero as the likelihood for physical climate risk will be greater and the regulatory impact may be more severe. While climate-related risks and opportunities are present across all geographies and sectors, they will likely be more pronounced for issuers in regions taking limited action to address climate risk from a regulatory standpoint, in those that, for geographic or economic reasons, are more likely to experience greater physical impacts, and in high-emitting sectors. In the short and medium term, T. Rowe Price believes that risks and opportunities that could stem from climate change impact will be more likely to drive changes in demand for investment products from clients in Europe, Japan and Australia.

While investments make up the majority of scope 1, 2 and 3 GHG emissions for asset managers, at T. Rowe Price most investments are managed for clients with a mandate to deliver financial performance. As a result, T. Rowe Price has not set a binding scope 3 net zero target where it would supersede the firm's fiduciary duty to deliver financial returns and manage risk, unless specified by the client or in an investment product. Instead, the firm's strategy has been to manage climate-related risks and opportunities by:

- (1) considering climate and other environmental factors within the investment analysis (for the purpose of maximising performance) and
- (2) offering select investment products that have environmental mandates.

The first helps mitigate the impact climate-related risks may have on financial performance, while the second helps mitigate the risk of changing client preferences.

Various climate risks and opportunities are likely to manifest across different time horizons and with different impacts. While some are present over a short-term time horizon, we believe they have the potential to become more significant over the medium and long term. The following table outlines the climate-related risks that might impact the firm's products, investment strategies and corporate operations. These risks are considered in the context of the following time frames:

[S] = Short-term risk (Less than one year)

[M] = Medium-term risk (two to five years)

[L] = Long-term risk (five or more years)

Type	Climate-Related Risks	Potential Financial Impacts
TRANSITION RISK	Market (related to investment performance) – [M] [L]	
	Energy transition may drive volatility in financial market performance and/or deviation in performance across specific regions and industries. This risk may be further exacerbated in the event of a disorderly transition.	<ul style="list-style-type: none"> ▪ Volatile or unfavourable market conditions leading to underperformance of investment portfolios
	Market (related to product offerings) – [M] [L]	
	Climate change may influence client preferences by increasing the demand for investment products oriented towards climate change mitigation.	<ul style="list-style-type: none"> ▪ Lower market share if product suite does not align with client preferences ▪ Increased costs associated with providing more customised products
	Clients may request more customisation on their segregated account mandates to align with their individual climate goals.	<ul style="list-style-type: none"> ▪ Increased costs for ESG data
	Market (related to operations) – [M] [L]	
	Regulatory environmental standards may require participation in energy reduction initiatives, energy efficiency programs or renewable energy programs.	<ul style="list-style-type: none"> ▪ Increased costs from carbon taxes or other environmental levies
Regulatory – [M] [L]		
Changes in regulation could lead to increased compliance costs, enhanced reporting obligations, regulation of existing products and/or services and exposure to litigation.	<ul style="list-style-type: none"> ▪ Change in client preferences for investment products ▪ Increased compliance costs ▪ Carbon taxes levied or other environmental fines ▪ Increased costs for ESG data 	
Technology – [M] [L]		
Transitioning to lower-emissions technologies for our own corporate footprint, along with the substitution of existing assets and related services with lower-emissions options, may require additional expenditure.	<ul style="list-style-type: none"> ▪ Substitution of obsolete assets ▪ Capital investment in new technologies ▪ Costs to adopt lower-emissions processes 	
Reputation – [M] [L]		
If T. Rowe Price were to fall short of stakeholder expectations on climate-related risks and sustainability, this may influence clients' willingness to do business with the firm and its workforce's willingness to remain.	<ul style="list-style-type: none"> ▪ Drop in stock price due to negative shareholder feedback ▪ Reduced AUM due to negative client feedback ▪ Negative impact on workforce management (e.g. employee attraction and retention) 	
PHYSICAL RISK	Acute External Events – [S] [M] [L]	
	An extreme weather event – such as a cyclone, wildfire, or flood – that impacts the firm's locations or the location of a vendor servicing the firm may affect day-to-day operations, potentially resulting in increased costs and workforce disruptions.	<ul style="list-style-type: none"> ▪ Negative impact to valuations could result in declines in asset values and potential loss of revenue
	Chronic External Events (related to investment performance) – [S] [M] [L]	
Within investment portfolios, extreme weather-related events around the world can impact companies in which the firm invests on behalf of our clients. An extreme weather event may cause investment professionals to reevaluate investments in affected companies. Valuations may be impacted, resulting in declines in asset values and potential loss of revenue.	<ul style="list-style-type: none"> ▪ Negative impact to valuations could result in declines in asset values and potential loss of AUM 	
Chronic External Events (related to corporate operations) – [M] [L]		
Rising sea levels may increase the risk of flooding to the Baltimore office, and increasing wildfires could impact operations in various locations. Additionally, because of extreme variability in weather patterns, the firm may experience increased costs related to more frequent cooling and heating needs inside buildings. Additionally, attracting and retaining talent in high-risk locations could become more challenging.	<ul style="list-style-type: none"> ▪ Increased operating and capital costs ▪ Increased insurance premiums and/or reduced availability of insurance ▪ Reduced ability to attract talent 	

Source: T. Rowe Price.

The following table outlines material climate related opportunities that might impact the firm's products, investment strategies and corporate operations. Similar to the risks outlined above, these opportunities are considered in the context of the following time frames:

[S] = Short-term risk (Less than one year)

[M] = Medium-term risk (two to five years)

[L] = Long-term risk (five or more years)

Type	Climate-Related Opportunities	Potential Financial Impacts
PRODUCTS & SERVICES	Market (related to investment performance) – [M] [L] The large systematic change driven by technological advances and/or regulation presents an opportunity for alpha generation by using environmental analysis as part of the investment process. As predominantly active investors, T. Rowe Price is better positioned to evaluate the impact of this systematic change on a case-by-case basis.	<ul style="list-style-type: none"> Ability to generate better investment research insights could lead to better investment performance
	Market (related to product offerings) – [M] [L] Changing client preferences may increase demand for investment products.	<ul style="list-style-type: none"> Increased AUM
RESILIENCE	Reputation – [M] [L] Exhibiting robust management of climate issues across the business may influence clients' willingness to do business with T. Rowe Price and its workforce's willingness to remain at the firm.	<ul style="list-style-type: none"> Increased AUM Increased ability to attract and retain talent

Source: T. Rowe Price.

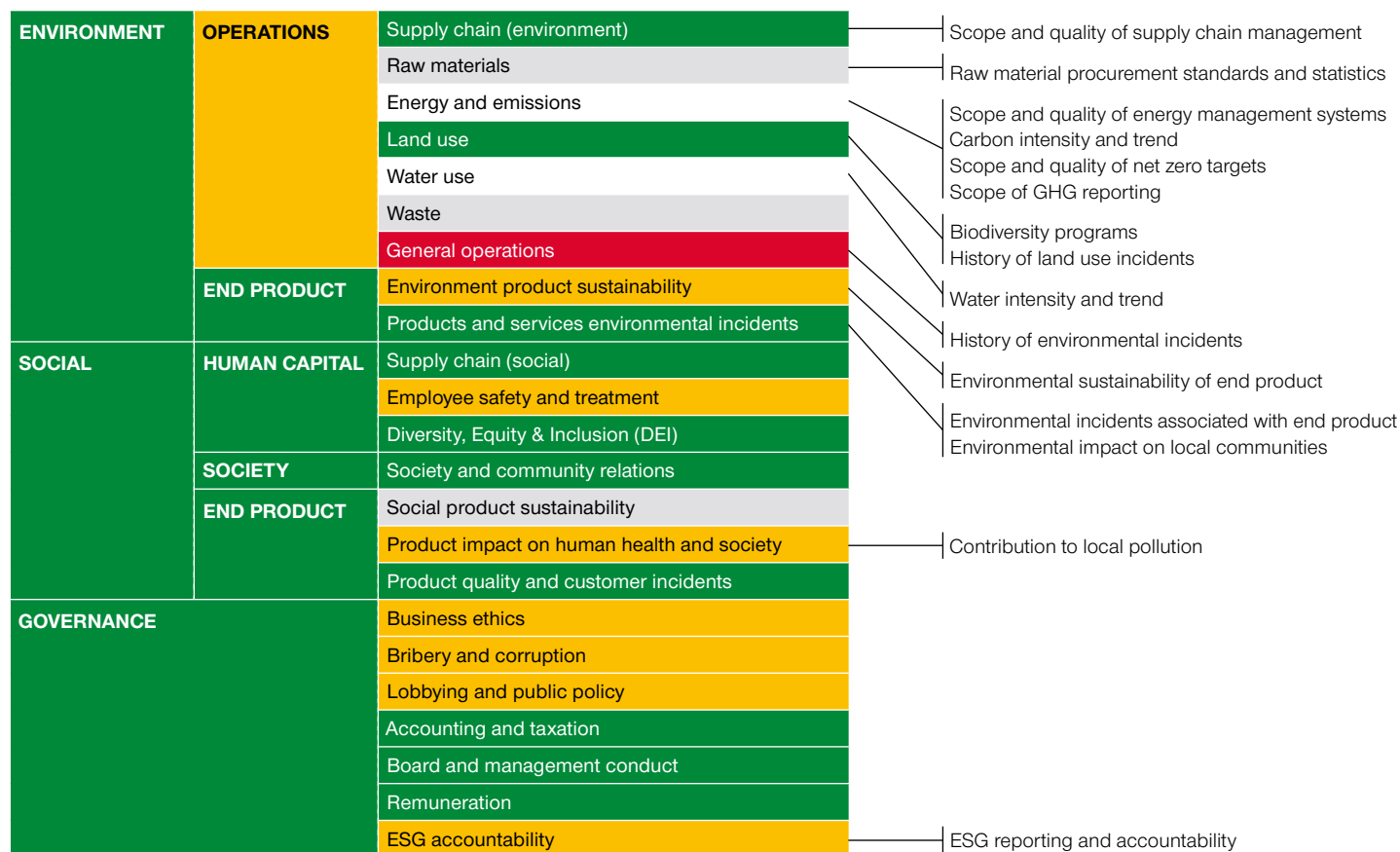
Climate Risks and Opportunities Consideration in Investment Products and Strategies

Our approach and consideration of climate-related factors are grounded in our existing fundamental investment and engagement practices where we consider climate risks and opportunities as part of security selection, portfolio review and discussions with companies as well as sovereign, securitised and municipal bond issuers. We believe that environmental and social factors, including climate change, can impact financial performance of our investee companies and other issuers, and we therefore integrate analysis of these factors into our research process for the purpose of maximising long-term risk-adjusted returns.

We use a combination of fundamental analysis, thematic research and our proprietary Responsible Investing Indicator Model (RIIM) to assess an issuer's net zero status and evaluate climate-related risks and opportunities. RIIM analysis provides two key benefits for our analysts and portfolio managers. First, RIIM proactively searches for environmental indicators and controversies on companies and sovereign issuers – this is an important feature as environmental data is not a required disclosure nor is it standardised like financial data. Second, RIIM provides a framework for evaluating environmental factors – in essence, it creates a common language for our analysts and portfolio managers to discuss how an investment is performing on environmental factors as well as compare securities within the investment universe.

Our evaluation of climate-related factors focuses on energy transition and physical risk, but we also believe that an issuer's environmental footprint and track record are important indicators that can help us understand how they may perform in a tightening regulatory

environment. As such our RIIM framework includes a range of inputs – a few examples are highlighted in the illustration of our corporate RIIM framework below.

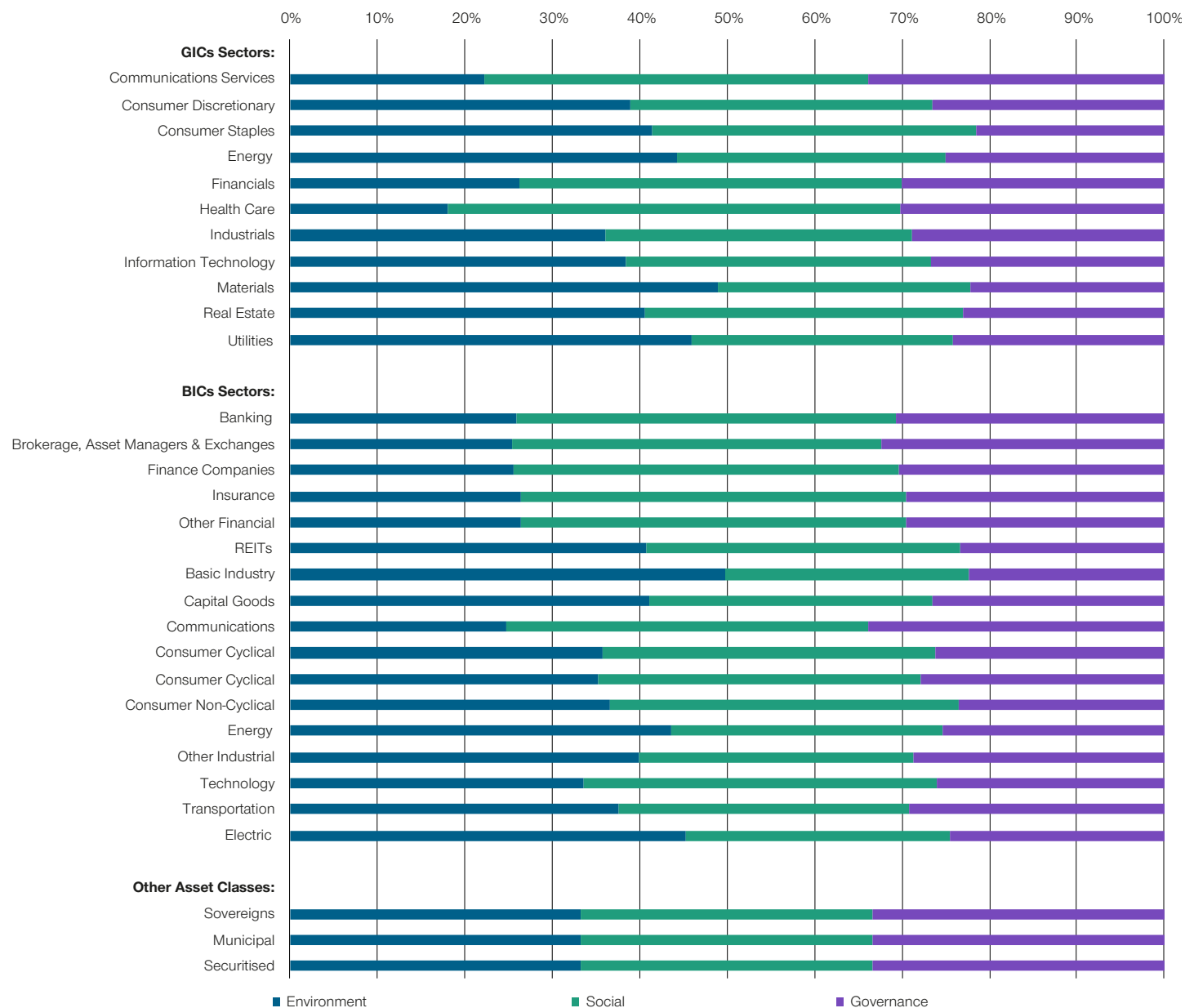


Source: T. Rowe Price. For illustrative purposes only.

Within the RIIM analysis, consideration of environmental factors is driven by materiality and the weight applied to each factor will vary based on industry or asset class. T. Rowe Price determines materiality using the Global Industry Classification Standard (GICS), Bloomberg Industry Classification Standard (BICS) and the Bloomberg Classification System (BCLASS).

Materiality is initially assigned at the GICS subindustry level. If a GICS classification is not available for a security, T. Rowe Price uses BICS. The table overleaf illustrates the weight T. Rowe Price applies across the environmental, social and governance pillars when assessing securities in these sectors.

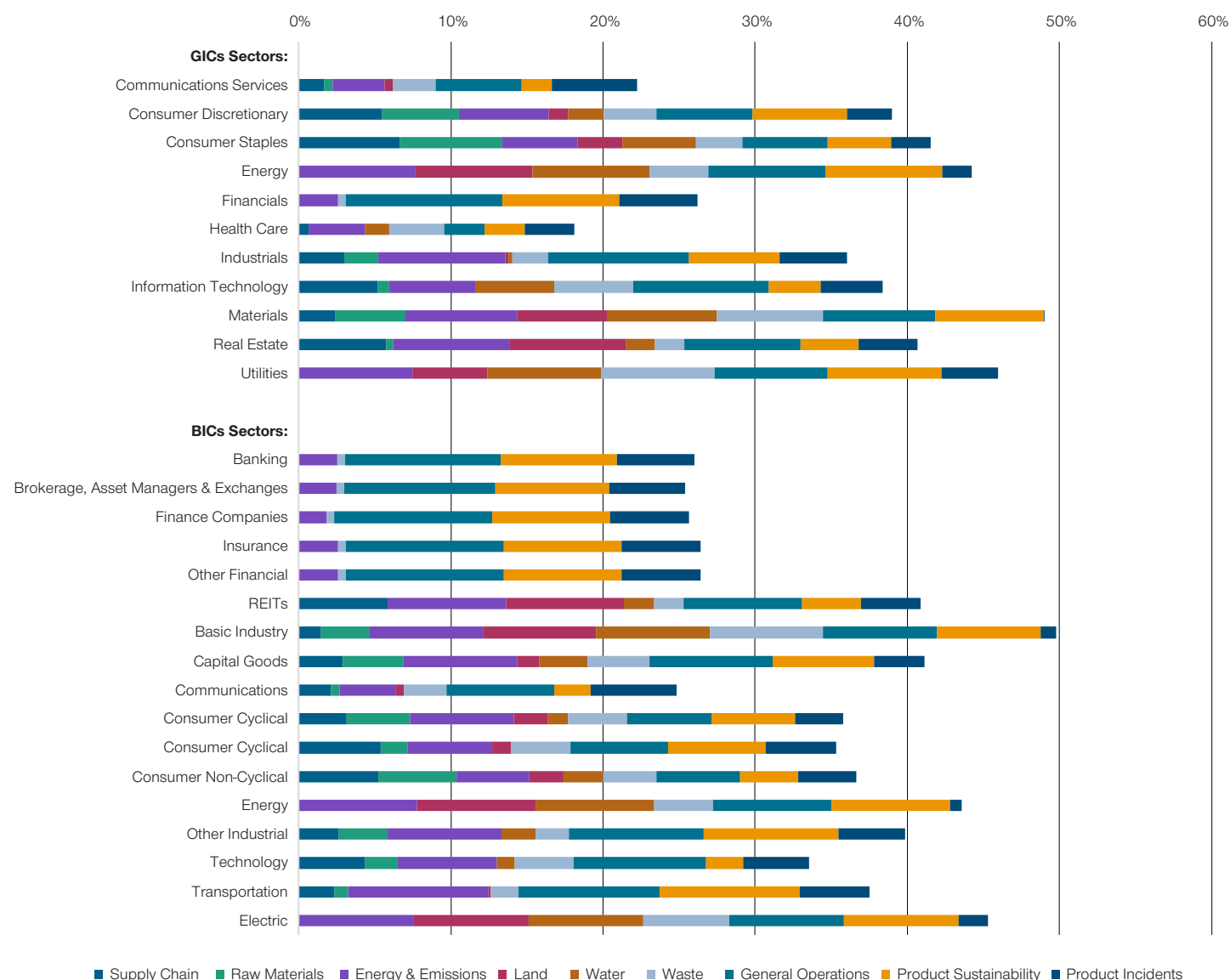
Materiality Breakdown of Environmental, Social & Governance Across Asset Classes



Source: T. Rowe Price.

The table below illustrates the breakdown in distribution within the environmental pillar:

Materiality Breakdown Within Environmental Pillar



Source: T. Rowe Price.

When it comes to considering climate-related risks and opportunities at a broader level (e.g., portfolio or investment universe level), we generally centre on the five core evaluation metrics listed below. Recently, we have engaged a third-party vendor to provide us with climate scenario analysis and implied temperature rise tools. While these new emerging evaluation metrics add some investment insights, data availability and quality are an issue.

Core Evaluation Metrics:

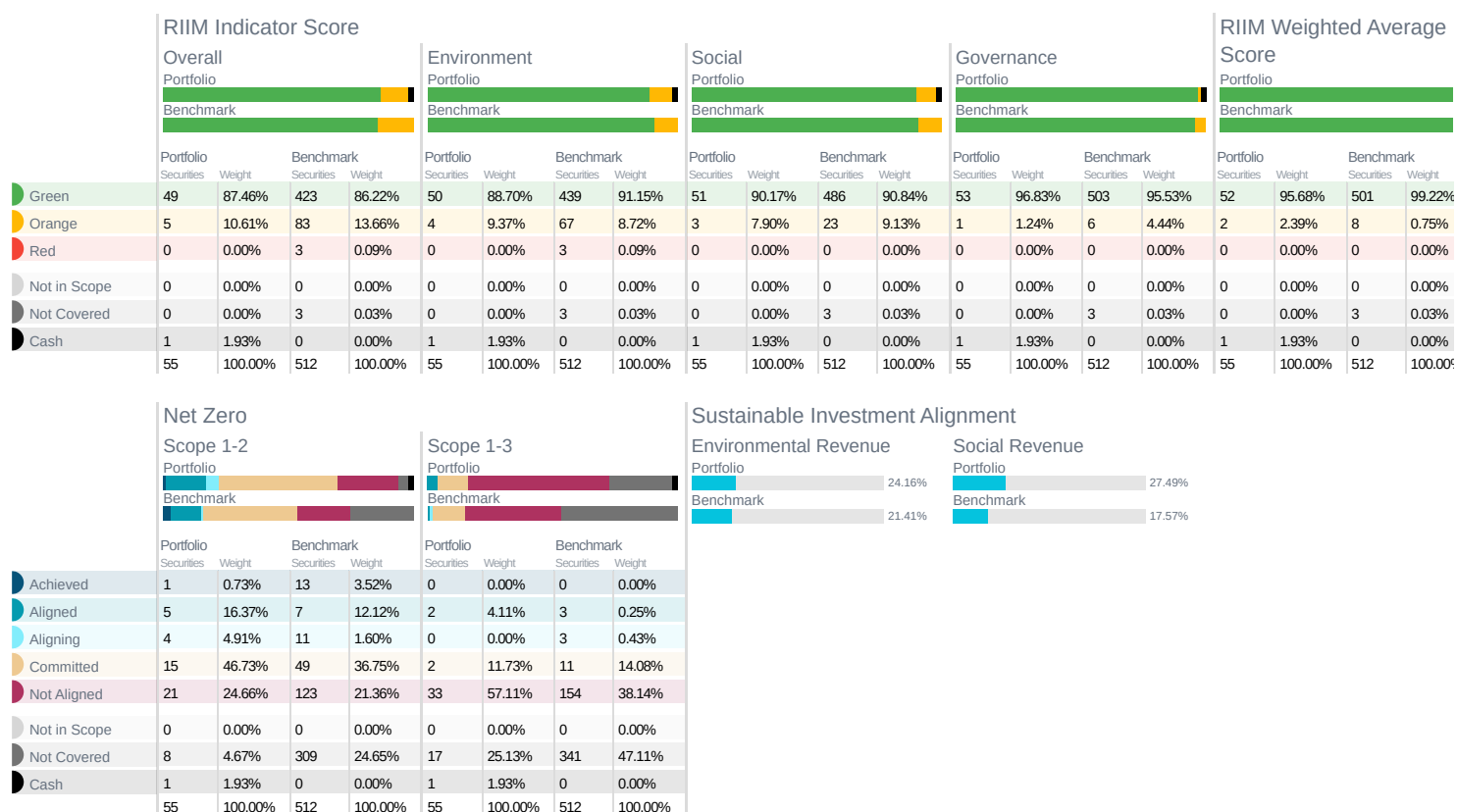
- RIIM Environment Scores
- Net Zero Status
- GHG Footprint
- Climate Solutions Alignment
- Engagement and Proxy Voting (Stewardship)

Emerging Evaluation Metrics:

- Climate Scenario Analysis
- Implied Temperature Rise

How each of the evaluation metrics is considered within a portfolio context will vary based on data availability and the investment strategy. For example, a portfolio with very limited data availability may not find GHG footprint, climate scenario analysis and implied temperature rise to be decision-useful metrics. Instead, that strategy may place a greater focus on RIIM environmental scores and climate solutions alignment (both of which can be generated through T. Rowe Price's own fundamental research, and as such do not have to be dependent on third-party data providers), as well as stewardship. In other cases, data availability may be good, but the portfolio's investment strategy may be more aligned with specific indicators, and that will determine which of the evaluation metrics are weighted most heavily by the portfolio manager.

The table below illustrates the type of proprietary analysis available at the portfolio level:



Source: T. Rowe Price. For illustrative purposes only.

Management of climate-related risks for a particular investment product is dependent upon the mandate given by the client. In the case where a client has set a sole mandate to deliver financial performance, climate-related risk mitigation is limited to evaluating environmental factors as part of the investment process for the purpose of maximising financial performance. A small but growing

number of clients have elected to apply various net zero or GHG reduction targets to their investment portfolios. These clients have directed a dual mandate to deliver on climate-related outcomes as well as financial performance – these types of mandates tend to fall into the three areas outlined as follows:

Net Zero Stewardship	Net Zero Mandate	Client-Specific Targets
<p>The portfolio analyses net zero factors for the purpose of maximising investment performance and deploys stewardship activities aimed at promoting a net zero objective.</p> <ul style="list-style-type: none"> Specific targets are set for engagement with portfolio holdings that have a net zero status of “not aligned” or “no data” (minimum 70% of financed emissions) Proxy voting reflects net zero objective Engagement also takes place on net zero issues with other holdings in the portfolio 	<p>The portfolio has a specific objective to reach net zero by 2050.</p> <p>As part of this objective, the portfolio mandate:</p> <ul style="list-style-type: none"> Sets firm target on engagement with holdings that are not aligned (minimum 70% of financed emissions) Sets firm target for 2050 that 100% of holdings have to be Achieved on net zero status Sets firm target for 2040 that 100% of holdings have to be Achieved or Aligned on net zero status Sets comply or explain target on net zero status for five years forward Sets comply or explain target on GHG emissions reduction Tracks climate solutions alignment 	<p>Clients with segregated accounts may be more targeted on the specific net zero factors they want to contribute to their net zero mandate – i.e., GHG reduction along a specific trajectory, climate solutions, engagements, etc.</p> <p>Some or all of the following are included in target setting and data tracking:</p> <ol style="list-style-type: none"> Net zero status GHG emissions Alignment to climate solutions Engagement

Source: T. Rowe Price.

Transition Plans

In the UK, the Climate Change Act 2008 commits the UK to achieving net zero GHG emissions by 2050. The UK government has established the Transition Plan Taskforce (TPT) to develop a gold standard for transition plans intended to support the UK's transition. Consultation took place in 2023 with a finalised sector-specific guidance due later in the year. The FCA is expected to draw on this work to enhance transition plan requirements for regulated firms. Updates proposed by the International Sustainability Standards Board are also expected to strengthen transition plan disclosure requirements by setting a new global baseline for disclosures, starting in 2024.

Although these requirements are not yet mandatory, T. Rowe Price continues to develop its global climate action plan in line with the TCFD transition plan guidance.

In its corporate operations, T. Rowe Price has focused on climate transition resilience, which includes a plan to upgrade many of its offices to greener buildings (including its UK headquarters) as well as a target to reach net zero across scope 1 and 2 emissions by 2040. This net zero target is supported by a medium-term target to reduce scope 1 and 2 emissions by 75% by 2030 and a target to increase energy efficiency by 10% by 2030.

Reducing and managing the firm's GHG emissions is the primary sustainability priority from a corporate operations standpoint. The firm's US-based Baltimore facilities generate the largest portion of scope 1 and 2 emissions across the Group. Consequently, bringing renewable energy to these facilities represents the largest step towards reducing GHG emissions. With the Baltimore local energy provider contract expiring in 2024, the firm is reviewing supplier bids to procure off-site renewable energy. While the firm does not expect to fully transition its Baltimore locations to renewable energy ahead of this expiration, it anticipates that by 2027 all the electricity used in T. Rowe Price-owned Baltimore offices will be provided by renewable sources. This will advance the firm's goal to increase electricity from renewable sources across its global real estate portfolio to 50% of total electricity usage by 2030 and to 95% by 2040.

The firm's remaining emissions are being addressed through a plan to convert most of its global offices from brown to green power. The most immediate example is a move in London to new office premises at Warwick Court, Paternoster Square, scheduled for the second half of 2023. Here, the office will be powered by 100% renewable electricity from high-quality contracts that meet UK Green Building Council requirements for net zero carbon and RE10 requirements.

In other global locations the firm has offices that currently do not offer renewable energy. While these offices represent less than 4% of emissions, it is hoped that renewable energy options will become available in advance of the 2040 goal. Moreover, the firm has multiple leasing cycles for its leased sites before 2040 and plans to work closely with landlords to procure green energy.

As older equipment becomes obsolete, the firm plans to install more efficient replacements selected to specifically support the net zero strategy. A small portion of the firm's scope 1 and 2 emissions come from stationary combustions, and we plan to convert equipment using natural gas to electricity. T. Rowe Price shares the view of the Science-Based Targets initiative and the Net Zero Asset Managers initiative: that offsets involving long-term carbon removal should only be used where there are not any technologically and/or financially viable alternatives to eliminate emissions.

As transition plan frameworks evolve in the UK and beyond, T. Rowe Price will continue to enhance its own approach.

Delegated Functions and Service Providers

T. Rowe Price is committed to minimising its impact on the environment and engaging in ethical business practices, as detailed in its Supplier Code of Conduct. The firm consistently seeks to improve its environmental management capabilities and measure progress. As a result, T. Rowe Price has made great strides in finding innovative ways to reduce waste, expand recycling and create more sustainable practices across all our delegates. T. Rowe Price expects its suppliers to share this commitment to environmental sustainability.

The firm aims for its suppliers to:

- Comply with all applicable environmental law and regulation;
- Continually strive to improve their sustainability performance, focusing on reduction of waste and GHG emissions and implementing energy efficiency measures; and
- Make the best attempt to track and monitor the consumption of natural resources, incentivising decisions that align with a low-carbon economy.

T. Rowe Price's investment strategies are provided globally across the Group's affiliates. Decision-making and processes behind how portfolio management services are delegated and products are offered are based on a variety of factors, including legal, regulatory and regional investment expertise. In each case the affiliate will be the entity we deem most appropriate to provide those services given the circumstances. Where TRPIL contracts directly with clients, it will either manage assets itself, or sub-delegate to Group affiliates globally (in some cases, to its own subsidiaries). Similarly, TRPIL may manage assets where it has been appointed by Group affiliates. Notwithstanding these delegation arrangements, all climate-related investment strategies, risks and opportunities are set at the Group level. This means that each affiliate is subject to the same Group governance structure set out above while it remains responsible for managing particular investment strategies on behalf of its clients. T. Rowe Price does not delegate portfolio management to third parties outside the Group except in select circumstances.

Climate Resilience

For an asset manager, it is incumbent on the firm to identify and analyse large systematic change, often driven by technological advances and/or regulation, and the corresponding risks and opportunities it could bring. T. Rowe Price sees climate change and the transition towards net zero as one such systematic change that will likely have a material impact across the investment universe. It will likely be the source of both value creation and destruction across industries, securities and portfolios.

To evaluate the resilience of TRPIL's portfolio holdings in different climate related scenarios, we assess the following indicators:

- (1) GHG footprint and intensity,
- (2) Net zero status,
- (3) Implied temperature rise (ITR), and
- (4) Climate Value-at-Risk (CVaR).

These indicators are informative at the investment strategy and entity level, but it is important to put each metric into the appropriate context given current data limitations. All four indicators suffer from challenges with data availability driven by two factors. First, not all asset classes are adequately covered with methodologies for each indicator, and, second, issuers are generally not required to report the data necessary for calculating each indicator. The investment team balances these indicators to the extent they are able alongside other investment factors to help evaluate the viability of an investment proposition. TRPIL's confidence in each indicator varies at the investment strategy level, based on data availability and quality.

In the case of the GHG emissions indicators, the portion of the portfolio lacking data will be prorated. Provided there is not a significant sector bias between the portions of the portfolio for which data does and does not exist, a portfolio manager can have relatively high confidence in using this indicator.

However, for ITR the third-party vendor makes an assumption that issuers that do not report data or GHG emissions targets will experience an increase in emissions into perpetuity. Given this divergent assumption, a portfolio manager will have relatively low confidence in using this indicator if data availability is problematic. In the case of net zero status, any issuers without data are identified as "no data" and therefore no systematic assumptions are included in the final indicator.

In the case of GHG emissions, another factor comes into play. Third-party vendors can provide estimated data for issuers that do not report. These estimates are generally based on industry averages so they can be useful for analysing portfolios that take material sector bets; however, they are less useful when a portfolio manager wants to compare securities within the same industry.

The firm has relatively high confidence in using GHG footprint and intensity for scope 1 and 2 emissions of its investment portfolios, when there is at least 75% data availability (either reported by the issuer or estimated by a third-party vendor). However, the firm has lower confidence in using it for scope 3 emissions of its investment portfolios. This is because third-party vendors only utilise estimated data for scope 3 GHG emissions. (Scope 3 GHG emissions are comprised of 15 separate categories and very few corporate issuers report all of them. Third-party vendors use of estimated data as reported data on scope 3 emissions will often not be comparable across issuers.)

In terms of availability and credibility of data, the firm finds net zero status to be the most helpful indicator at present and has relatively high confidence in using scope 1 and 2 GHG emissions footprint and intensity. These two indicators are balanced with other factors when making investment decisions, as appropriate to the mandate of each investment strategy.

Net Zero Status

T. Rowe Price has embedded net zero status analysis within its investment platform. It is a helpful tool to understand the future direction of GHG emissions for portfolio holdings that does not incorporate any assumptions for securities where not enough data is available. The analysis of net zero status is based on the Paris Aligned Investor Initiative (PAII) Net Zero Framework. As the PAII Net Zero Framework currently only focuses on corporate securities, 13.7% of holdings fall out of scope for this analysis.

As the table below illustrates, at 31 December 2022, 11.3% of TRPIL holdings had a net zero status of Achieved, Aligned or Aligning and a further 27.4% had a net zero status of Committed. To put these figures into context, a 1.5°C aligned portfolio would need to achieve the following: 50% of its holdings Achieved or Aligned by 2030, 100% Achieved or Aligned by 2040 and 100% Achieved by 2050. With 38.7% of TRPIL holdings having a status of Committed or better at the end of 2022, it is a reasonable assumption that the investment portfolios in aggregate are on a pathway to reach 50% Achieved and Aligned status by 2030.

For the proportion of TRPIL holdings that are Not Aligned, T. Rowe Price aims to engage with these companies to encourage improved disclosure and discuss their climate strategies. For the proportion of TRPIL holdings that do not have data, T. Rowe Price has been prioritising coverage based on investment size and sector. As net zero status is a relatively new indicator, T. Rowe Price expects the No Data category to shrink over time.

Net Zero Status	Description of Net Zero Status	% of TRPIL AUM
Achieved	Company is already achieving the emissions intensity required by the sector and regional pathway for 2050 net zero, and its ongoing investment plan or business model is expected to maintain this performance.	2.3%
Aligned	Company has a 2050 net zero target that is supported by 1.5 °C aligned short- and medium-term targets, exhibits GHG emissions intensity performance in line with its targets and has a credible decarbonisation plan and capex alignment.	7.8%
Aligning	Company has 1.5°C aligned short- and medium-term targets and has credible decarbonisation plan.	1.1%
Committed	Company has a 2050 net zero target.	27.4%
Not Aligned	Company does not have adequate GHG reduction targets, disclosure or performance to qualify for Achieved, Aligned, Aligning or Committed status.	25.9%
No Data	No data available. Issuer does not disclose enough data or it has not yet been evaluated.	16.9%
Out of Scope	Asset class is not yet covered by PAII Net Zero Framework.	13.7%
Cash	N/A	4.8%

Source: T. Rowe Price.

Note: Net zero status is based on scope 1–2 emissions.

Greenhouse Gas Emissions and Intensity

The carbon footprint of investment portfolios includes various metrics of GHG emissions that can be taken on an absolute and normalized basis. In this report, three metrics are provided for the TRPIL AUM. Despite all three metrics using the term “carbon”, the measurements include all four types of GHG emissions – namely carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O) and fluorinated gases (F-gases). The mix of GHGs are reported in CO₂-equivalent (CO₂e).

GHG emissions are grouped into three categories: scope 1, 2 and 3. As scope 1 and 2 emissions are those directly under a company’s control, they are usually reported on a combined basis at the portfolio level. The following table illustrates the scope 1–2 carbon footprint for TRPIL AUM as of 31 December 2022. As total coverage was above 70% for each metric, confidence is relatively good for the aggregate figure.

Among corporate securities held, overall coverage was relatively good with 79% of scope 1 and 2 emissions being reported by issuers and 21% estimated by MSCI (as measured by percent of AUM). For corporate issuers, less than 1% of AUM reflected GHG emissions data from 2022. The majority of data reflected 2021 and 2020 GHG emissions (73% and 26%, respectively), while the remainder reflected GHG emissions data from 2019 or earlier.

In practice, the firm puts more focus on analysing the GHG footprint of each underlying portfolio in comparison with its respective benchmark. As of 31 December 2022, 20.5% of TRPIL’s AUM was more than 50% below benchmark, 2.5% was more than 30% below benchmark, 40.8% was below the benchmark and 20.7% was above the benchmark, while 15.5% did not meet the >75% data availability hurdle referred to above.

Scope 1–2 Carbon Footprint as of 31 December 2022		Unit	Scope 1–2	Coverage
Total financed carbon emissions	An absolute measurement that reflects the total GHG emissions for which an investor is responsible by their ownership	Tons CO ₂ e	11,471,961.1	73.7%
Financed carbon emissions	A normalised measurement that reflects the total financed carbon emissions per US \$1 million invested	Tons CO ₂ e per US \$M invested	63.4	73.7%
Financed carbon intensity	A normalised measurement that reflects the weighted average of each holding’s GHG emissions divided by revenues for corporate securities and GHG emissions divided by gross domestic product (GDP) for sovereign securities ¹	Tons CO ₂ e per US \$M revenue	183.4	75.1%
Financed carbon intensity (corporate constituents)		Tons CO ₂ e per US \$M revenue	161.0	75.1%
Finance carbon intensity (sovereign constituents)		Tons CO ₂ e per US \$M GDP Nominal	496.4	16.6%

Source: MSCI ESG Research LLC.

¹ This metric is also known as weighted average carbon intensity (WACI).

Scope 3 emissions data has similar coverage levels to scope 1 and 2, but all were estimated by MSCI.

Scope 3 Carbon Footprint as of 31 December 2022		Unit	Scope 3	Coverage
Total financed carbon emissions	An absolute measurement that reflects the total GHG emissions for which an investor is responsible by their ownership	Tons CO ₂ e	59,561,566.8	73.6%
Financed carbon emissions	A normalised measurement that reflects the total financed carbon emissions per US \$1 million invested	Tons CO ₂ e per US \$M invested	329.3	73.6%
Financed carbon intensity	A normalised measurement that reflects the weighted average of each holding's GHG emissions divided by revenues for corporate securities	Tons CO ₂ e per US \$M revenue	834.6	74.7%

Source: MSCI ESG Research LLC.

Implied Temperature Rise

ITR provides an indication of how an investment portfolio aligns to global temperature rise. The concept of ITR is built around the allocation of a global carbon budget (i.e., how much carbon can be emitted to stay within 1.5°C, 2°C or other temperature limit) and how much a company can emit to stay within its fair share of global decarbonisation. Several steps are taken to calculate an investment portfolio's ITR:

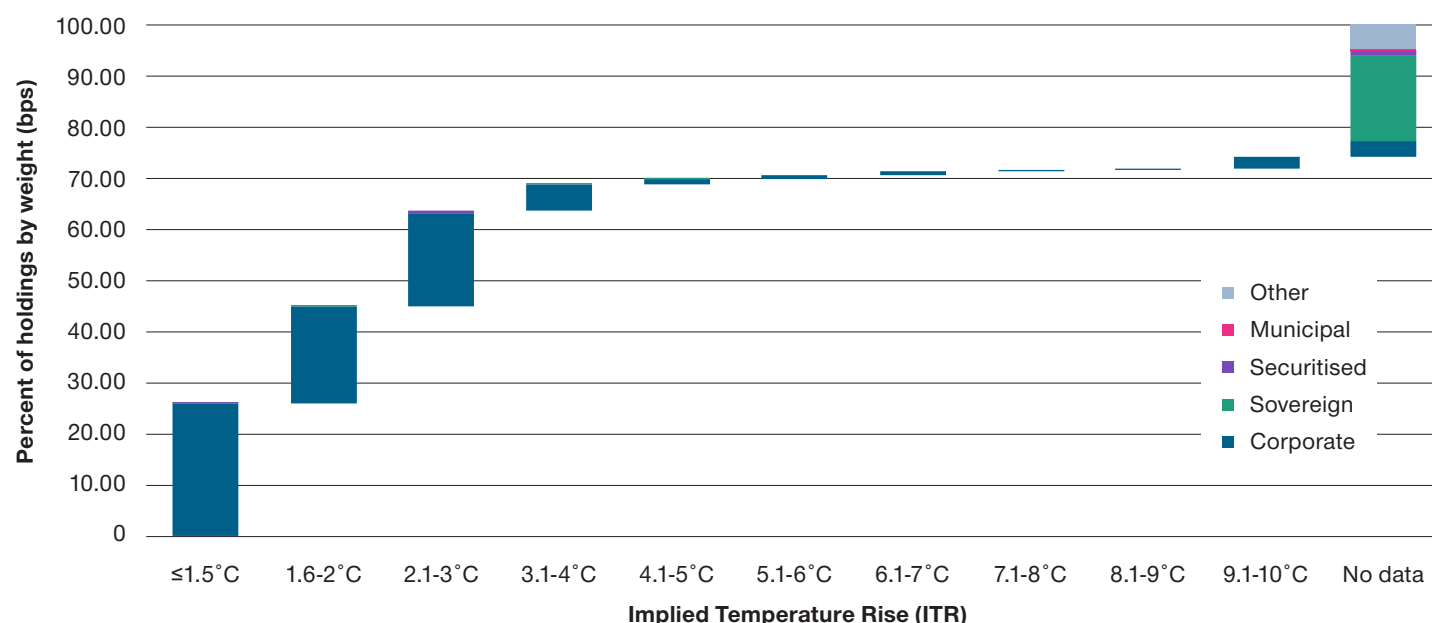
(5) A carbon budget is set at global level based on a specific warming scenario (i.e., 1.5°C, 2°C) and then corporate decarbonisation targets are derived assigning an absolute carbon budget to each holding.

(6) Each holding's current emissions and reduction targets are used to project an absolute emissions timeseries for that holding. This is compared with each holding's allocated carbon budget to determine emissions that over/undershoot. From that, an implied temperature is derived (i.e., if a company overshoots its budget in a 2°C warming scenario, its ITR will be higher than 2°C.).

(7) The weighted average of the portfolio is calculated based on each underlying holding's ITR.

Using MSCI data, TRPIL aggregated AUM reflects an ITR of 2.6°C with data availability for 74.4% of holdings. The chart below illustrates the ITR distribution of TRPIL holdings by sector.

TRPIL Implied Temperature Rise Distribution by Weight



Source: MSCI ESG Research LLC.

While ITR can add value by providing another metric to understand transition risk within investment portfolios, it is important to understand that the methodology is particularly vulnerable when it comes to issuers that have not provided long-term GHG emissions reduction targets. When an emissions target is not available, an MSCI assumption of 1% per annum GHG emissions growth is applied into perpetuity for that issuer.

T. Rowe Price believes this assumption may prove too punitive over time, particularly for issuers operating in regions or sectors experiencing faster energy transition. The charts below highlight the pace of transition experienced by high-income countries, which have seen a breakdown of the link between GDP and carbon emissions as well as absolute reductions in primary energy consumption and carbon emissions.

Relative Change in Energy Intensity and Mix:

Chart 1 - World

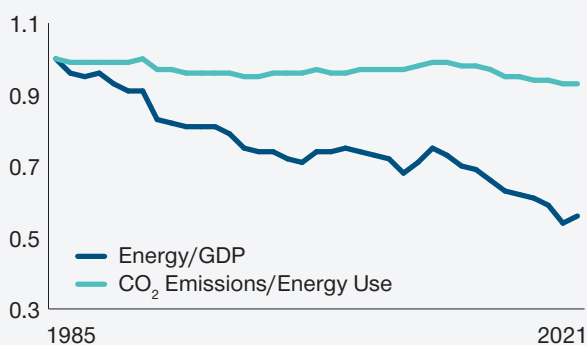
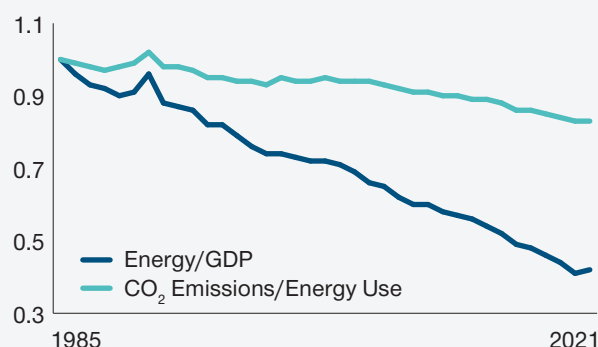


Chart 2 - High-Income Countries



Change in Energy Consumption and Emissions:

Chart 3 - Total Energy Consumption (5-Year CAGR*)

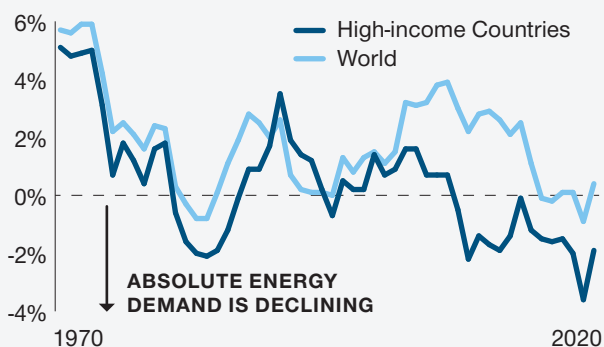
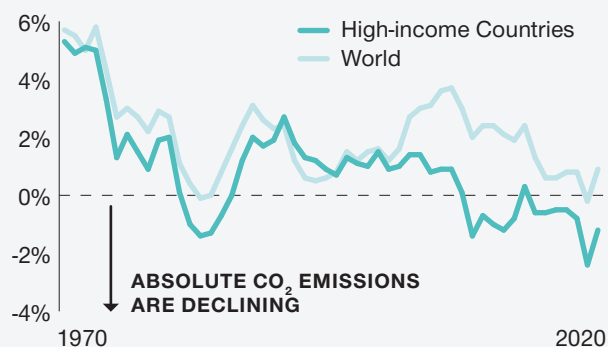


Chart 4 - Total CO₂ Emissions (5-Year CAGR*)



Sources: Our World in Data based on Global Carbon Project, UN, BP, World Bank, T. Rowe Price.

* CAGR stands for compound annual growth rate. It represents the consistent rate of growth had the indicator compounded at the same rate each year.

Climate Value at Risk

Climate Value at Risk (CVaR) is a forward-looking, quantitative model that estimates the expected costs and opportunities driven by transition and physical risk under various climate scenarios. CVaR expresses the present value of net climate costs and benefits as a percentage of the issuer's valuation. Each underlying holding is then aggregated to determine the investment portfolio's CVaR.

Using MSCI's climate scenario analysis, TRPIL aggregated AUM reflects -9.7% CVaR assuming the 1.5°C orderly scenario developed by the Central Banks and Supervisors Network for Greening the Financial System (NGFS). Given that data availability is 66% across our TRPIL holdings, T. Rowe Price has low confidence in the data.

The following table highlights the CVaR of TRPIL aggregated AUM across various climate scenarios:

	1.5°C REMIND NGFS Orderly	1.5°C REMIND NGFS Disorderly	2.0°C REMIND NGFS Orderly	3.0°C REMIND NGFS NDC
CVaR	-9.6%	-24.5%	-7.5%	-8.1%

Source: MSCI ESG Research LLC.

Risk Management

Our comprehensive approach to identifying and assessing risks and opportunities – including climate change – is managed through established risk frameworks focusing on reputational risk, strategic risk, operational risk, business continuity risk, human capital risk, compliance risk and financial risk. Identifying climate-related risks includes the consideration of extreme weather events, uncertainty surrounding regulation, reputational impacts, investment risk and our product range.

As head of the Enterprise Risk Group (ERG), our Chief Risk Officer (CRO) is primarily responsible, with support from the ERM, for anticipating and addressing new risks, as well as ensuring the proper handling of risk across the firm. The CRO reports to the firm's Chief Operating Officer and regularly updates the Group's Board. The ERG is an independent, global team with seasoned experts specialising in enterprise and operational risk, investment risk, privacy, and business resiliency.

The ERG conducts assessments of the risks that our firm faces in the short, medium, and long term. The corporate risk profile informs the ERM of the key risks the firm faces to help prioritise how we focus on risk mitigation across the firm. The ERG is responsible for leading our risk management efforts by partnering with business units to identify risks, understand acceptable levels of risk, and implement solutions that mitigate exposure to risk.

Individuals with functional expertise across the business are required to identify and address potential climate related risks for their areas of responsibility. This is supplemented by the Enterprise Risk and Global Compliance Functions, as well as Legal, Finance, Tax and HR, which provide insight on external risks, existing and emerging regulatory requirements related to climate change. Review and prioritisation of identified climate related risks are undertaken by the ERM.

This approach ensures quick identification and response to risks and opportunities, reducing the impact on the firm, including TRPIL, and clients.

Analysing Investment Risks

Within the investment process, the firm uses RIIM, net zero status, GHG footprint and climate solutions alignment² analysis to identify and assess climate-related risks. Where data availability is adequate, the process has also started to incorporate CVaR and ITR – however, this type of analysis was limited in scope in 2022. With the onboarding of an ESG data vendor providing CVaR and ITR data, this analysis is expected to be incorporated more broadly as appropriate based on data availability.

Within the RIIM assessment, investments' environmental characteristics are considered holistically. At the issuer level, each area of focus is weighted in accordance with its materiality to the industry or sub-industry. Portfolio-level assessments can also include a comparison to the benchmark. Key areas of focus include:

- Energy transition risk
- Net zero status
- Physical risk
- Biodiversity impact
- Circular economy contribution
- Exposure to climate solutions
- Land use
- Water use
- Track record on environment
- Accountability and transparency for ESG (including climate change)

² Percentage of revenues or use-of-proceeds aligned to economic activities that are climate solutions (i.e., renewable energy generation, sustainable agriculture, etc.)

The following table outlines the process for management of identified climate risks. Similar to the risks and opportunities tables provided in the Strategy section, these are considered in the context of the following time frames:

[S] = Short-term risk (Less than one year)
[M] = Medium-term risk (one to nine years)
[L] = Long-term risk (ten or more years)

Type	Process for Managing Climate Related Risks and Opportunities
TRANSITION RISK	Market (related to investment performance) – [M] [L] Analysts and portfolio managers are accountable for considering climate-related factors within their investment process, as part of ESG integration. This is included as part of their year-end evaluation and compensation. Additionally, the firm’s active stewardship program helps mitigate climate risks within investment portfolios.
	Market (related to product offerings) – [M] [L] The ESG Enablement team is responsible for working in partnership with the Product team to develop a strategy regarding investment product offerings with environmental and/or social mandates.
	Market (related to operations) – [M] [L] These considerations are reflected in the firm’s environmental management planning strategy, and influence ongoing planning and budgeting exercises.
	Regulatory – [M] [L] The risk of litigation claims, as well as existing and emerging regulatory requirements related to climate change, are continuously evaluated by our Legal, Compliance, & Audit Department and incorporated in the firm’s overall risk management program.
	Technology – [M] [L] T. Rowe Price tracks costs inherent to transitioning to lower-emissions technologies for its own corporate footprint, along with the substitution of existing assets and related services with lower-emissions options.
	Reputation – [M] [L] T. Rowe Price has a comprehensive risk management program in place that is designed to quickly respond to any incident, minimise business interruption, and help reduce any impact on clients or the firm. The multilayered approach ensures that the firm routinely tracks shifts in consumer preferences and collects feedback from stakeholders.
	PHYSICAL RISK
Chronic External Events (related to investment performance) – [S] [M] [L] Analysts and portfolio managers are accountable for considering climate-related factors within their investment process, as part of ESG integration. This is included as part of their year-end evaluation and compensation. Additionally, the firm’s active stewardship program helps mitigate climate risks within investment portfolios.	
Chronic External Events (related to corporate operations) – [M] [L] The Business Continuity team is developing a long-term plan that seeks to assess and mitigate specific impacts over 10-30 years.	

Source: T. Rowe Price.

Climate Stewardship

Climate-related risks can be financially material, especially in high-emitting industries, and therefore ongoing engagement with investee companies and other issuers on this topic is one way to mitigate risk. For equity investments, engagement can be supplemented with a proxy voting program that takes climate risk into account.

At T. Rowe Price, engagement on climate change with management teams or boards of investee companies is usually conducted as part of a multifaceted discussion on many investment considerations for that particular company but occasionally could focus only on climate change implications. Given that T. Rowe Price has predominantly actively managed portfolios, portfolio managers may elect to screen out specific companies with onerous climate-related risk if they believe it will negatively impact the investment case. As a result, the profile of invested companies across TRPIL portfolios may look meaningfully different to peers – particularly passive peers. That is why engagements on specific ESG issues like climate change tend to be in-depth discussions, where T. Rowe Price believes engagement can be effective.

One of the more difficult aspects of evaluating climate related risks and opportunities in corporate securities is the lack of disclosure on key environmental metrics, strategy, and accountability. T. Rowe

Price expects companies to adopt industry best practice disclosure standards. To this end, the firm advocates for disclosures aligned to SASB and the TCFD – both globally recognised frameworks that emphasise financial materiality. Additionally, for smaller issuers of private credit and syndicated loan transactions that may find SASB and TCFD difficult to achieve in the near term, the firm advocates using the ESG IDP (ESG Integrated Disclosure Project) reporting template.

T. Rowe Price encourages all issuers to report their scope 1–3 emissions. However, it recognises that reporting scope 3 emissions adds more complication than scope 1–2 emissions and that, for some industries, estimating methodologies are still evolving. Given these issues, T. Rowe Price does not unilaterally expect all issuers to report a full suite of scope 3 emissions; however, it expects the landscape and its expectations to evolve over the next 12–36 months. In the interim, T. Rowe Price strongly encourages issuers to report the scope 3 emissions categories most material to their business. For high-emitting companies, the minimum expectation is disclosure of absolute scope 1–2 GHG emissions on an annual basis. Failure by companies in these industries to disclose this data leaves investors unable to properly analyse their exposure to climate related risks. For this transparency gap, T. Rowe Price will generally oppose the re-elections of all non-executive incumbent directors at the next shareholder meeting.

The following table outlines T. Rowe Price's materiality assessment for scope 1-3 GHG emissions by sector and industry:

Overview of Scope 1-3 emissions materiality assessment by sector

		← Lower materiality Higher materiality →																
		Low	Moderate	Medium	High	Extreme												
Sector	Industry	Scope 1-2	Scope 3	Scope 3 Emissions Categories														
				1. Purchased Goods & Services	2. Capital Goods	3. Fuel & Energy-Related Activities	4. Upstream Trans. & Dist.	5. Waste Generated in Operations	6. Business Travel	7. Employee Commuting	8. Upstream Leased Assets	9. Downstream Trans. & Dist.	10. Processing of Sold Products	11. Use of Sold Products	12. EOL Treatment of Sold Products	13. Downstream Leased Assets	14. Franchises	15. Investments
Communications Services	Media & Entertainment																	
	Telecommunication Services																	
Consumer Discretionary	Automobiles & Components																	
	Consumer Discretionary Distribution																	
	Consumer Durables																	
	Apparel, Footwear & Textiles																	
	Consumer Services																	
Consumer Staples	Beverages																	
	Consumer Staples Distribution & Retail																	
	Food Products																	
	Household Products																	
	Personal Care Products																	
Energy	Energy & Equipment																	
	Oil & Gas and Consumable Fuels																	
Financials	Financials																	
Health Care	Health Care																	
Industrials	Aerospace & Defense																	
	Air Freight & Logistics																	
	Building Products																	
	Commercial Services & Supplies																	
	Construction & Engineering																	
	Electrical Equipment																	
	Ground Transportation																	
	Industrials Conglomerates																	
	Machinery																	
	Marine Transport																	
	Passenger Airlines																	
	Professional Services																	
	Trading Companies & Distribution																	
	Transportation Infrastructure																	
	Information Technology	Software & Services																
Technology Hardware & Equipment																		
Semiconductors & Semiconductor Equipment																		
Materials	Chemicals																	
	Construction Materials																	
	Containers & Packaging																	
	Metals & Mining																	
	Paper & Forest Products																	
Real Estate	Real Estate																	
Utilities	Utilities																	

Source: T. Rowe Price as at March 2023.

Engagement is only part of the stewardship toolbox. If T. Rowe Price does not see sufficient progress in a reasonable time frame, it will typically escalate the dialogue in a number of ways. One option is to undertake collaborative engagement alongside direct conversation.

Another would be to use the proxy vote to encourage the company to take a different approach. A third option would be to make a public statement, perhaps by pre-disclosing how T. Rowe Price intends to vote before or around the time of the meeting.

Metrics and Targets

Due to the complex nature of climate-related data, there are inherent limitations in its availability, accuracy and consistency. These limitations arise from factors such as incomplete data sets, variations in measurement methodologies, a lack of historical data, uncertainties surrounding the future climate impacts. It is important to acknowledge these are data limitations when interpreting and utilising climate-related financial disclosures, as they may affect the comprehensiveness and reliability of the information provided. The data within this report pertains to the 2022 calendar year, there is no historical data available prior to this period.

T. Rowe Price uses a number of metrics to measure and manage climate-related risks and opportunities as outlined in the Strategy section. In this report, the metrics include carbon emissions per million

invested, WACI, ITR and CVaR. Data availability is between 65-75% for each of these metrics. Data availability is generally good for equities, corporate bonds and sovereign bonds, but is not available for municipal and securitised bonds. As such, T. Rowe Price does not have high confidence in these figures, particularly at the aggregated level.

Despite this, the metrics are more useful to the investment process when evaluated at the portfolio level – particularly for those portfolios with robust data availability. As discussed in the Strategy section, T. Rowe Price has been more reliant on GHG emissions metrics coupled with net zero status analysis but has started to consider ITR and CVaR where data availability allows. We use a number of metrics to measure and manage climate related risks and opportunities outlined in the Strategy section.

Greenhouse Gas Emissions (as of 31 December 2022)		Aggregate Metric for TRPIL AUM Impact	Data Availability
Total Financed Carbon Emissions			
■ Scope 1+2	Tons CO ₂ e	11,471,961.1	73.7%
■ Scope 3	Tons CO ₂ e	59,561,566.8	73.6%
Financed Carbon Emissions per million invested (investor allocation: EVIC)			
■ Scope 1+2	Tons CO ₂ e / US \$M invested	63.4	73.7%
■ Scope 3	Tons CO ₂ e / US \$M invested	329.3	73.6%
Financed Carbon Intensity (investor allocation: EVIC)			
■ Scope 1+2	Tons CO ₂ e / US \$M sales	184.4	75.1%
■ Scope 3	Tons CO ₂ e / US \$M sales	834.6	74.7%
Of which:			
■ Corporate constituents: Scope 1+2	Tons CO ₂ e / US \$M sales	161.0	75.1%
■ Corporate constituents: Scope 3	Tons CO ₂ e / US \$M sales	956.7	74.7%
■ Sovereign constituents: GHG intensity	Tons CO ₂ e / US \$M GDP Nominal	496.4	16.6%
Climate Scenario Analysis & Implied Temperature Rise			
Implied temperature rise (ITR)		2.6°C	74.4%
Aggregated Climate VaR (Value at Risk): 1.5°C REMIND NGFS Orderly		-9.6%	65.0%
Aggregated Climate VaR (Value at Risk): 1.5°C REMIND NGFS Disorderly		-24.5%	65.0%
Aggregated Climate VaR (Value at Risk): 2.0°C REMIND NGFS Orderly		-7.5%	65.0%
Aggregated Climate VaR (Value at Risk): 3.0°C REMIND NGFS NDC		-8.1%	65.0%

Source: MSCI ESG Research LLC.

For detail on how the assets of TRPIL are aligned with a well below 2°C scenario, please refer to the Net Zero assessment within the Strategy section of this report.

No binding targets have been set for the metrics in the chart above. The majority of TRPIL's AUM is managed for clients with a mandate to deliver financial performance. As such, it would not be appropriate to set a binding target that would supersede the firm's fiduciary duty.

Instead, T. Rowe Price's strategy has been to manage climate-related risks and opportunities by:

- (1) considering climate and other environmental factors within the investment analysis (for the purpose of maximising performance), and
- (2) offering select investment products that have environmental mandates.

In 2022, T. Rowe Price became a signatory of the Net Zero Asset Managers initiative (NZAM). NZAM acknowledges that the ability and scope for asset managers to invest for net zero depends on the mandates agreed with clients and with legislative and regulatory environments. Commitments are also predicated on the expectation that governments follow through on their own commitments to ensure the objectives of the Paris Agreement are met. Accordingly, T. Rowe Price's ability to meet the goals of the initiative remains in the context of complying with its fiduciary duty first and foremost.

In becoming a signatory to NZAM, T. Rowe Price will help support the establishment of robust and standardised methodologies for evaluating pathways to net zero. Additionally, over time T. Rowe Price expects to grow its offering of investment products with dual mandates that include net zero, GHG reduction or broader environmental objectives.

Formulas for Metrics

In accordance with the recommendations made by the TCFD, we use the following metrics to report on our financed GHG emissions.

Footprint Metrics on Investor Allocation Definitions

EVIC: Enterprise Value Including Cash	Enterprise Value Including Cash (EVIC) is an alternate measure to Enterprise Value (EV) to estimate the value of a company by adding back cash and cash equivalents to EV.
	$EVIC = \text{Market capitalization at fiscal year-end date} + \text{Preferred Stock} + \text{Minority Interest} + \text{Total Debt}$
	The underlying data used for EVIC calculation is sourced from a company's accounting year-end annual filings. EVIC is updated and reflected once a year as the data is sourced annually.
Financed Carbon Emissions tons CO ₂ e / \$M invested	Allocated emissions to all financiers (EVIC) normalized by \$m invested. Measures the carbon emissions, for which an investor is responsible, per USD million invested, by their equity ownership. Emissions are apportioned based on equity ownership (% market capitalization).
	$\frac{\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)}{\text{current portfolio value (\$M)}}$
Total Financed Carbon Emissions tons CO ₂ e	Allocated emissions to all financiers (EVIC). Measures the total carbon emissions for which an investor is responsible by their equity ownership. Emissions are apportioned based on equity ownership (% market capitalization).
	$\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)$
Financed Carbon Intensity tons CO ₂ e / \$M sales	Allocated emissions per allocated sales. Measures the carbon efficiency of a portfolio, defined as the ratio of carbon emissions for which an investor is responsible to the sales for which an investor has a claim by their equity ownership. Emissions and sales are apportioned based on equity ownership (% market capitalization).
	$\frac{\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_i \right)}{\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's \$M revenue}_i \right)}$

Weighted Average Carbon Intensity Definitions

Corporate constituents tons CO ₂ e / \$M sales	Measures a portfolio's exposure to carbon-intensive companies, defined as the portfolio weighted average of companies' Carbon Intensity (emissions/sales).
	$\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i} \right)$
Sovereign constituents tons CO ₂ e / \$M GDP nominal	Measures a portfolio's exposure to carbon-intensive economies, defined as the portfolio weighted average of sovereigns' GHG Intensity (emissions/GDP).
	$\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} \times \frac{\text{sovereign issuer's GHG emissions}_i}{\text{sovereign issuer's \$M GDP}_i} \right)$

Source: MSCI ESG Research LLC.

Glossary of Terms

Acute Risks – Events / Disruptions

Event-driven physical risks emanating from climate change, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods.

Biodiversity

The variety of plant and animal species on Earth, their habitats and the ecological processes that sustain them.

Bloomberg Industry Classification Standard

The Bloomberg Industry Classification Standard (BICS) classifies companies by tracking their primary business as measured first by source of revenue and second by operating income, assets and market perception.

Carbon Footprint

Carbon Footprint is the total amount of greenhouse gas (GHG) emissions, usually measured in carbon dioxide equivalents (CO₂e), caused by an individual, organisation, product, or activity.

Chronic Physical Risks – Events / Implications

Physical risks emanating from climate change that are long term in nature, such as longer-term shifts in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise).

Circular Economy

An economic model that aims to minimise waste and maximise resource efficiency by promoting the recycling, reuse, and regeneration of materials.

Climate Scenario Analysis

Climate Scenario Analysis (CSA) is the process of assessing the potential impacts of different climate change scenarios on an organisation's operations, financials, and strategies. It helps identify risks and opportunities related to climate change.

Climate Value-at-Risk

Climate Value-at-Risk (CVaR) is an output of climate scenario analysis. It is designed to provide a forward-looking and return-based valuation assessment to measure climate related risks and opportunities in an investment portfolio. It offers insights into how climate change could affect company valuations.

Disorderly Transition

A disorderly transition refers to a particular climate scenario. The representative scenario for a disorderly transition shows a much more challenging pathway to meeting the Paris Agreement targets.

Energy Transition

The shift away from the current energy system to one that emits low to zero GHG emissions. This is achieved through the use of energy efficiency measures and the shift to cleaner and more sustainable energy sources, such as renewable energy (solar, wind, hydropower).

Enterprise Value including Cash

Enterprise Value Including Cash (EVIC) is an alternate measure to Enterprise Value (EV) to estimate the value of a company by adding back cash and cash equivalents to EV. The underlying data used for EVIC calculation is sourced from a company's accounting year-end annual filings. EVIC is updated and reflected once a year as the data is sourced annually.

ESG Integrated Disclosure Project

Please refer to <https://www.esgidp.org/> for more information

Exposure to Climate Solutions

Percentage of revenues or use-of-proceeds aligned to economic activities that are climate solutions (i.e. renewable energy generation, sustainable agriculture, etc.)

Financed Carbon Emissions (tons CO₂e / US \$M invested)

Allocated emissions to all financiers (EVIC) normalised by \$m invested. Measures the carbon emissions, for which an investor is responsible, per USD million invested, by their equity ownership. Emissions are apportioned based on equity ownership (% market capitalisation).

Financed Carbon Intensity (tons CO₂e / US \$M sales)

Allocated emissions per allocated sales. Measures the carbon efficiency of a portfolio, defined as the ratio of carbon emissions for which an investor is responsible to the sales for which an investor has a claim by their equity ownership. Emissions and sales are apportioned based on equity ownership (% market capitalization).

Financed Emissions

Financed emissions are those generated as a result of financial services, investments, and lending by investors and companies that provide financial services.

Global Industry Classification Standard

GICS, or the Global Industry Classification Standard classifies companies in the subindustry that most closely describes the business activities that generate the majority of the company's revenues.

Implied Temperature Rise

The Implied Temperature Rise metric provides an indication of how companies and investment portfolios align to global climate targets. Expressed in degrees Celsius (°C), it estimates the global implied temperature rise (in the year 2100 or later) if the whole economy had the same carbon budget over-/undershoot level as the company (or portfolio) in question.

Net Zero Asset Managers initiative (NZAM)

Please refer to <https://www.netzeroassetmanagers.org/> for more information.

Nationally Determined Contribution

NDC, or Nationally Determined Contribution, is where countries set targets for mitigating the greenhouse gas emissions that cause climate change and for adapting to climate impacts through a climate action plan that is updated every five years. The plans define how to reach the targets, and elaborate systems to monitor and verify progress so it stays on track.

Network for Greening the Financial System

NGFS, or The Central Banks and Supervisors Network for Greening the Financial System is a group of Central Banks and Supervisors willing, on a voluntary basis, to exchange experiences, share best practices, contribute to the development of environment and climate risk management in the financial sector, and to mobilise mainstream finance to support the transition toward a sustainable economy. Its purpose is to define and promote best practices to be implemented within and outside of the Membership of the NGFS and to conduct or commission analytical work on green finance.

Net Zero Status

Net zero status indicates the level of alignment a company has with a 1.5°C warming scenario. The net zero status alignment scale includes:

- **Achieved:** Company is already achieving the emissions intensity required by the sector and regional pathway to stay within a 1.5°C warming scenario and whose ongoing investment plan or business model is expected to maintain this performance
- **Aligned:** Company has a 2050 net zero target that is supported by 1.5 °C aligned short and medium-term targets, exhibits GHG emissions intensity performance in line with its targets and has credible decarbonisation plan and capex alignment
- **Aligning:** Company has 1.5°C aligned short and medium-term targets and has credible decarbonisation plan
- **Committed:** Company has a 2050 net zero target
- **Not Aligned:** Company does not have adequate GHG reduction targets, disclosure or performance to qualify for Achieved, Aligned, Aligning or Committed status
- **Out of scope:** Asset class is not yet covered by Paris Aligned Investor Initiative (PAII) Net Zero Framework

Orderly Transition

An orderly transition refers to a particular climate scenario. The representative scenario for an orderly transition assumes immediate action is taken to reduce emissions consistent with the Paris Agreement.

Paris Aligned Investor Initiative (PAII) Net Zero Framework.

Please refer to www.parisalignedassetowners.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf for more information.

REgional Model of Investments and Development

REMIND, or REgional Model of Investments and Development is a global multi-regional model incorporating the economy, the climate system and a detailed representation of the energy sector.

Responsible Investing

Responsible investing includes a variety of activities, such as ESG integration, stewardship, management of exclusion lists, security or industry level research and thematic research.

Science-Based Targets initiative

Please refer to www.sciencebasedtargets.org/ for more information

Scope 1, 2 and 3 Greenhouse Gas Emissions

Corporate greenhouse gas (GHG) emissions are broken down into scope 1, 2 and 3, where scope 1-2 emissions represent those under the company's direct control and scope 3 emissions represent those in a company's upstream and downstream value chain.

- Scope 1—refers to all direct emissions
- Scope 2—refers to indirect emissions from consumption of purchased electricity, heat, or steam
- Scope 3—refers to other indirect emissions not covered in scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include the extraction and production of purchased materials and fuels, transport related activities in vehicles not owned or controlled by the reporting entity, electricity related activities e.g., transmission and distribution losses, outsourced activities, and waste disposal.

Senior Managers and Certification Regime

The Senior Managers and Certification Regime (SMCR) is a UK regulation that imposes personal accountability on senior managers performing key roles at financial services firms and conduct rules on other staff.

Sustainability Accounting Standards Board (SASB)

Please refer to <https://www.sasb.org/> for more information

Task Force on Climate-related Financial Disclosures (TCFD)

Please refer to <https://www.fsb-tcfd.org/> for more information.

Total Financed Carbon Emissions (tons CO₂e)

Allocated emissions to all financiers / Enterprise Value Including Cash (EVIC). Measures the total carbon emissions for which an investor is responsible by their equity ownership. Emissions are apportioned based on equity ownership (% market capitalisation).

Transition Plan

Refers to an aspect of an organisation's overall business strategy that lays out a set of targets and actions supporting its transition toward a low-carbon economy, including actions such as reducing its GHG emissions.

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