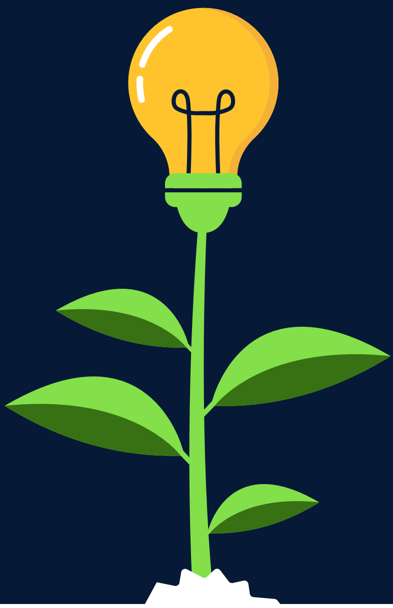
T. Rowe Price

Harnessing the power of U.S. impact investing to drive positive change



From the Field

Key Insights

- Substantial additional capital is required to help solve some of the world's most pressing challenges. Innovative U.S. companies remain well positioned to drive large-scale environmental and social progress.
- U.S. companies are recognizing the financial opportunity available to them to help tackle some of the critical pressure points that affect the planet and the communities in which they operate.
- Through selective investment and thoughtful engagement with U.S. businesses that have global reach, we continue to see scope for both attractive financial returns and positive, measurable impact.

David Rowlett
Portfolio Manager,
U.S. Impact Equity Strategy

The extreme events of recent years have ushered in a new phase of purposeful, solutions-oriented action, providing attractive opportunities to invest in companies that are helping to tackle some of the important environmental and social challenges we face today. Global investor appetite for businesses that can deliver measurable impact remains strong—though more discerning—and we expect that interest to persist, providing a constructive backdrop for impact-oriented strategies, including in U.S. equity markets, where the potential pace of change is substantial.

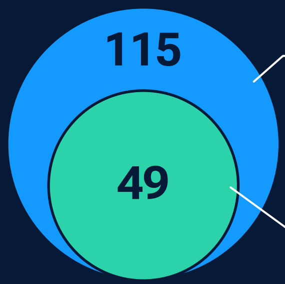
Sustained momentum for environmental sustainability and social equity action

We are observing a meaningful, durable shift in how health care access, social equity, and environmental protection are integrated into policy and capital allocation. Despite pockets of resistance, we are broadly seeing asset owners and businesses move beyond tentative steps to embed impact considerations into core decision-making.

> “An expanding set of U.S. companies are recognizing the financial opportunity available to them to help tackle some of the critical pressure points that affect the planet and the communities in which they operate.

Public equity markets bring tremendous scale and liquidity

(Fig. 1) U.S. markets account for almost half of the public equity opportunity set



As of December 31, 2023. Most recent source available.
Source: Securities Industry and Financial Markets Association.

Achieving impact through publicly listed investments

Impact investing originated with private investments, but over the last decade, the category has broadened out to all capital markets. With approximately USD 115 trillion in global market cap, public equity markets bring tremendous scale and liquidity to impact investing. The U.S. public equity market is the largest and most liquid market with around USD 49 trillion in market capitalization.[1] The sheer size, combined with the innovation and leadership in areas like technology and health care, makes the U.S. an attractive market for impact investors to focus on, in our view.

In 2015, United Nations member states adopted “the 2030 Agenda for Sustainable Development” with 17 United Nations sustainable development goals (UN SDGs) at its core, intended to help achieve a better and more sustainable future for all (Figure 4). It is estimated that it will require USD 5 trillion–7 trillion in annual investment through 2030 to meet the UN SDGs, which will require sizable investment across all asset classes. We use the UN SDGs as our north star, and every one of our investments is aligned to one or more of those goals.

Investing for impact in public markets, however, goes beyond simply owning and capturing the economics of companies with impactful business models. It is important to direct capital toward companies that we believe are driving material change but also to amplify the impact being generated through deliberate company engagement, proxy voting, and the associated influence feedback loop. Thoughtful impact stewardship with company management teams is a valuable tool in the pursuit of material impact outcomes. T. Rowe Price’s strong presence and reputation in the U.S. market helps us maintain productive relationships with management teams and can often result in effective engagements as they build and refine their sustainability strategies.

Dual mandate

Our approach to impact investing involves the pursuit of attractive financial returns alongside positive environmental and/or social impact. Only companies that meet our impact criteria are considered for investment, but impact alignment is just the first step in the selection process. Those companies that qualify on impact grounds are then subjected to a rigorous fundamental evaluation where we assess factors like business durability, management quality, profitability, and valuation.

USD 5 trillion–7 trillion

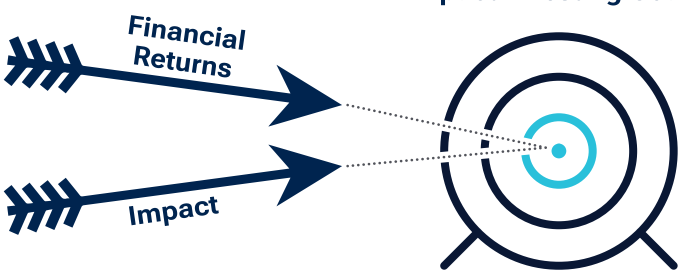
Annual estimated investment required through 2030 to meet United Nations Sustainable Development Goals.

> “We use the UN SDGs as our north star, and every one of our investments is aligned to one or more of those goals.

[1] As of December 31, 2023.

Impact investing seeks both impact and financial returns

(Fig. 2) Only companies that meet these criteria are considered for selection



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

Fishing in a pond of companies that are all working toward impactful endeavors provides inherent durability and secular growth tailwinds, in our opinion. But not all companies driving positive impact will prove to be good investments. It is crucial to identify the innovative leaders that are providing solutions while simultaneously adding value for shareholders. With the size, resources, and expertise of our research platform, we believe we have an advantage in identifying such companies and thus delivering on both aims of our dual mandate.

Why U.S. markets are so important to impact investing

The size, breadth, global reach, and technological and innovative leadership of U.S. companies position them particularly well to address the important environmental and social problems that exist today. U.S. equity markets have additional collective benefits, such as offering relatively attractive financial investment characteristics that include strong management teams, shareholder focus, reliable reporting, and access to capital.

It is also worth highlighting that from a financial return perspective, U.S. equities have significantly outperformed other regional markets. Over the past decade, the S&P 500 Index has returned a cumulative 259% versus the MSCI ACWI ex U.S. of 90%, almost 2.9x the upside. Over the last 30 years, the S&P 500 Index has returned a cumulative 1,880% versus the MSCI ACWI ex U.S. of 500%, nearly 3.8x.[2]

At the same time, many U.S. corporations have room to improve their sustainability and impact initiatives, which creates more opportunities for investors to voice their opinion. T. Rowe Price's strong brand, reputation, and overall presence in the U.S. should help allow for higher levels of corporate access.

Impact investing can help address ESG concerns

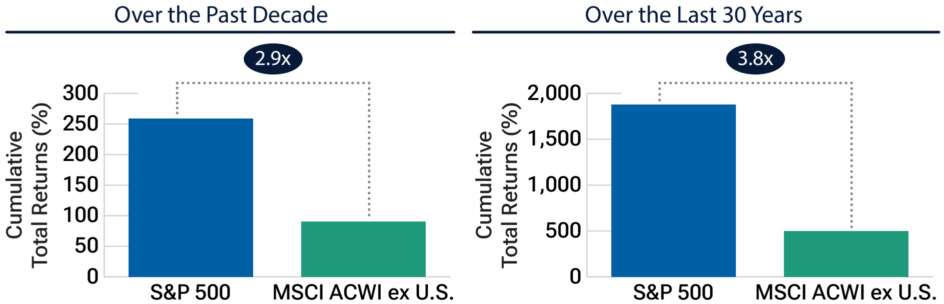
There have been increasing questions about the viability of environmental, social, and governance (ESG) investing and whether investing with an ESG focus truly brings better returns. Further scrutiny around the risk of greenwashing has underscored the value of having a clear, authentic approach.

> “The size, breadth, global reach, and technological and innovative leadership of U.S. companies position them particularly well to address the important environmental and social problems that exist today.

[2] Source: FactSet As of June 30, 2025.

U.S. companies have a long history of strong relative investment returns

(Fig. 3) Over 10- and 30-year periods, U.S. companies have markedly outperformed international markets



As of June 30, 2025.
Past performance is not a guarantee or a reliable indicator of future results.
Source: FactSet.

With impact investing, however, there are clearly defined factors that differentiate the investment strategy. Thorough stock selection criteria, structured measurement processes, and active dialogue should help to reduce risk and hold companies accountable. If a firm fails to meet its stated impact objectives, or if the thesis deteriorates, it can be reevaluated or exited—reinforcing credibility. In short, we believe that a thorough impact process helps remove much of the vagary and opaqueness that can be associated with ESG- or sustainability-themed funds.

Providing a better solution for investors seeking to be on the right side of change

Impact investing can also be a key tool in helping to position investors on the right side of societal and environmental change. Combined with fundamental analysis, deep research, and a valuation discipline, capital can be directly deployed into change-enabling companies seeking positive impact.

Importantly, impact can be complementary to other investment styles easily being paired with other U.S. equity products to increase portfolio strategy diversification. Traditionally, asset owners such as endowments and foundations have invested their principal capital in U.S. market index funds or active strategies with a single financial return mandate. As part of their returns, investment income can then be used to help fund grants and provide philanthropic donations. With impact investing's dual mandate of financial return and positive social and environmental change, an opportunity exists for those same institutions to provide direct capital toward impact-oriented investments.

With asset managers acting as fiduciaries for their clients to help them achieve their financial goals, be it retirement or education, it is our belief that if you can achieve attractive financial returns through investments that align more closely with environmental and social values, then most investors will choose that over financial returns alone.

United Nations Sustainable Development Goals (UN SDGs)

(Fig. 4) 17 development goals intended to help achieve a better and more sustainable future for all

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Source: United Nations. https://unosd.un.org/content/sustainable-development-goals-sdgs

Impact investing strategies may not succeed in generating a positive environmental and/or social impact. The incorporation of environmental and/or social impact criteria into an investment process may cause a strategy to perform differently from a strategy that uses a different methodology to identify and/or incorporate environmental and/or social impact criteria or relies solely or primarily on financial metrics. There is no assurance that any investment objective will be achieved.

INVEST WITH CONFIDENCE™

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