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Innovative Impact Credit Investing:

Looking Further Afield for Impact

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The breadth, depth, and liquidity of the credit markets provide investors with a wide variety of impact opportunities. Some of these are already labelled by third parties as having a positive environmental and/or social impact.

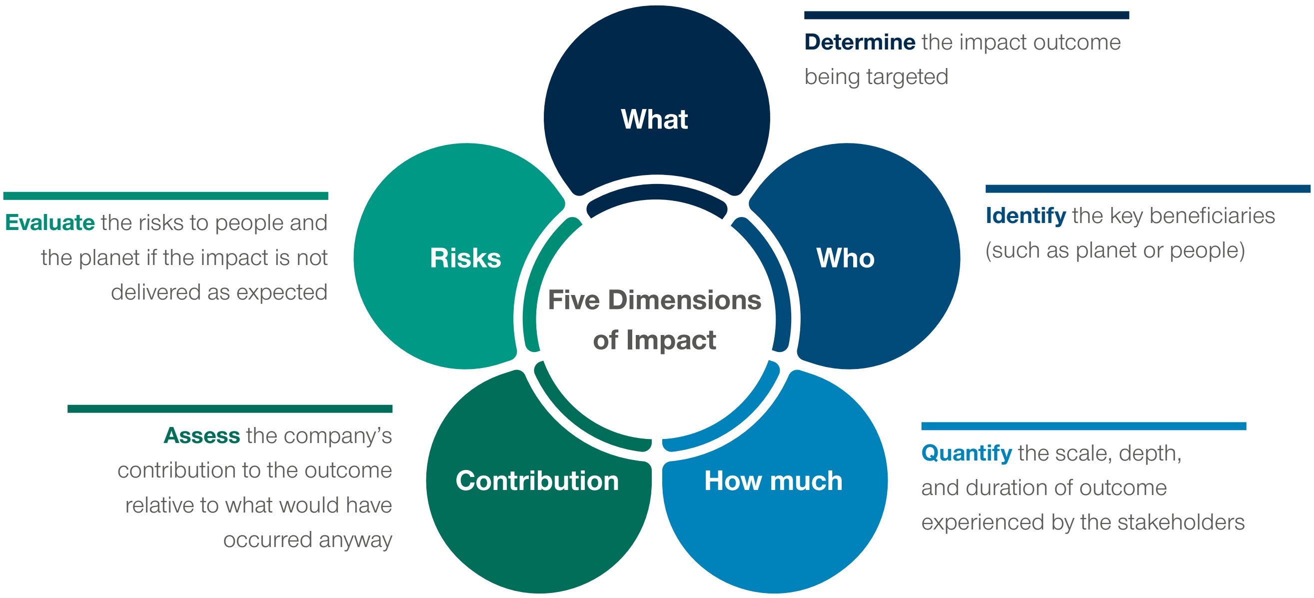
But other impact credit opportunities may be under-researched or unlabelled, which doesn't necessarily make them less valid. It's an area where a diverse, consistent approach to identifying impact and deep, fundamental analysis can really pay off.

How do we invest in impact investments?

T. Rowe Price invests in impact investments with two goals in mind: we seek debt issuers that are on the right side of change—those seeking to deliver a positive environmental and/or social impact—but we also aim to generate attractive financial returns for our clients from these investments.

If we are investing further into the less-analysed areas of the credit markets to find impact opportunities, how do we ensure we're comparing like with like? That comes down to the **"five dimensions of impact"** with which we seek to form our impact theses.

For each potential impact investment, we state upfront **what** the strategic goal of the impact is, **who** will benefit, by **how much**, the debt issuer's contribution to the impact outcome, and the potential **risks** that could derail the impact thesis.



To illustrate how we are looking further afield for impact, below we highlight four recent examples of our innovative impact investing approach. These are cases where T. Rowe Price has delved deeper into the credit universe to find investment opportunities to create a holistic set of positive outcomes for our clients, alongside a financial return.

Case Study 1: The Blue Bond

In January 2023, the T. Rowe Price Global Impact Credit fund invested in the $1bn, 10-year 'blue bond' of the Export-Import Bank of Korea, (KEXIM) part of a record $3.5bn sale of dollar-denominated bonds to global investors.

The blue bond is an innovative financial instrument whose proceeds are designed to finance projects to support the sustainable use of ocean resources. Specifically, the bond supports investments in sustainable maritime transportation: its goal is to minimise the adverse climate and environmental impacts of sea and coastal freight, water transport and vessels for port operations in Korea.

The below highlights how we measured the five dimensions of impact for this bond.

What?	Reduction of environmental impacts of the Korean shipping industry through investments in clean maritime transportation
Who?	Planet
How much?	The bank expects to disburse 69trn (KRW) in credit (30trn KRW to SMEs) in 2022 and plans to provide 10trn KRW of loans for the Maritime sector in 2022
Contribution?	In 2020, the bank contributed to annual employment retention of 600,000 jobs. KEXIM aims to provide ESG financing for Korean businesses of >180trn KRW within 2021-2030
Risks?	Risk of vessels being used for the transportation of fossil fuels, however KEXIM has confirmed that it will exclude these vessels within its blue bond framework

We also assessed the bond against our proprietary impact investment framework shown. It positively aligned to pillar 1 (Climate and Resource Impact), sub-pillar 2 (Promoting Healthy Ecosystems) and against two **United Nations Sustainable Development Goals** (SDG #7 (Affordable and Clean Energy) and SDG #14 (Life Below Water)).

Impact Alignment

Impact Pillar
Climate & Resource

Impact Sub-Pillar
Promoting healthy ecosystems

UN SDG

7 AFFORDABLE AND CLEAN ENERGY

14 LIFE BELOW WATER

The key performance indicators (KPIs) by which we will measure the ongoing impact of the blue bond include the number of sustainable vessels financed, the greenhouse gas emissions avoided and the proportion of fuel consumption that is generated by renewable energy.

KPIs

- Number of sustainable vessels financed
- GHG emissions avoided (tCO_2e/year)
- Consumption of renewable fuel vs. conventional fossil fuel

Finally, we look to ensure that each of our impact credit investments offers attractive financial returns: in this case, our fundamental analyst assigned the Export-Import Bank of Korea a C2 (buy) conviction rating and a TRP 2- (AA-) fundamental rating.

Furthermore, at issue, the bonds, which were issued by a wholly owned government policy bank (with government support), were priced cheaply relative to Korean sovereign debt, as well as to other global AA-rated quasi-sovereigns.

Impact investment pillars guide our decision making

Impact Pillars	Sub-Pillars	Sub-Pillar Activities	UN SDG ALIGNMENT
1 Climate and Resource Impact	1.Reducing greenhouse gases (GHGs)	Increasing energy efficiency Decarbonization and carbon capture Reducing methane and other GHGs Financing activities	7, 9, 11, 13
	2. Promoting healthy ecosystems	Protecting air quality, land use, freshwater & oceans Sustainable agriculture Sustainable aquaculture	6, 14, 15
	3. Nurturing circular economies	Reducing waste Recycling Enabling efficient consumption	12
2 Social Equity and Quality of Life	4. Enabling social equity	Education & job training, Enabling SMEs, Financial inclusion, Reducing discrimination Digital connections Meeting basic needs / affordable housing Consumption at the bottom-of-the-pyramid	1, 2, 4, 5, 6, 8, 10
	5. Improving health	Providing health care solutions Improving nutrition & food quality Companion & animal health	2, 3
	6. Enhancing quality of life	Promoting mental & physical fitness Protection solutions Personal & worker safety solutions, Safer mobility	3, 8, 16
3 Sustainable Innovation and Productivity	7. Sustainable technology	Innovative software & technology Innovation growth & smart infrastructure	9, 11
	8. Building sustainable industry and infrastructure	Enabling enterprise growth Improving industrial processes	8, 9, 11

Source: T. Rowe Price uses a proprietary custom structure for impact pillar and sub-pillar classification.

Case Study 2: NatWest's Social Bond

In March 2023, the T. Rowe Price Global Impact Credit fund invested in NatWest's third social bond, a €500m issue whose proceeds are dedicated to the financing of loans for female-led enterprises.

This bond aims to increase the number of jobs at women-owned businesses, as well as the number of women employed. Female entrepreneurs represent a significant untapped economic potential for the UK: according to one estimate, if women in the UK started and scaled businesses at the same rate as men, that could add an aggregate £250bn to the UK economy.

As with every prospective investment for the Global Impact Credit fund, we set out the five dimensions of impact, seeking to make our investment thesis more concrete.

What?	The proceeds are expected to help generate employment opportunities and reduce the gender financing gap in the UK.
Who?	People - Women owned businesses in the UK
How much?	In 2022, NatWest supported 53,000 individuals and businesses. 59% of this support was provided to women.
Contribution?	NatWest has over 1,000 independently accredited Women in Business specialists.
Risks?	Lack of attention to client protection / appropriate tailoring of products of women's needs. Lack of supporting local regulatory frameworks that could impede the health of the market.

Assessed against our proprietary impact investment framework, we found the bond aligned with impact pillar 2 (Social Equity and Quality of Life) and sub-pillar 4 (Enabling Social Equity), as well as UN SDGs #5 (Gender Equity) and #10 (Reduced Inequalities).

Impact Alignment

Impact Pillar
Social Equity and Quality of Life

Impact Sub-Pillar
Enabling Social Equity

UN SDG

5 GENDER EQUALITY

10 REDUCED INEQUALITIES

To measure the bond's impact on an ongoing basis, we will track the number of jobs created or enabled by the investment of the bond's proceeds in women-owned businesses. We also plan to actively engage with NatWest regarding the progress towards the targeted outcome.

KPI

Estimated # of jobs created or enabled that are directed at women owned businesses

From a fundamental perspective, we believed that the bond was attractively priced for an investment grade security. NatWest also has a strong franchise in UK retail banking, with a market share of around 8-9 percent, as well as a leading position in corporate banking, with a market of share of over 20 percent (where NatWest is especially strong in lending to small- and medium-sized enterprises). In addition, the bank's healthy range of product diversification helps to offset its concentration in the UK market.

Case Study 3: PG&E's Wildfire Mitigation Bond

In November 2022, the T. Rowe Price Global Impact Credit fund invested in a new, AAA-rated $215m securitised bond issued by Pacific Gas & Electric (PG&E), a gas and electricity utility based in Oakland, California. This bond helps promote wildfire mitigation and enhance the awareness of fire risks.

To put this impact investment into context, the pace and the extent of wildfire activity is increasing worldwide. From 2013 to 2022, there were an average of 61,410 wildfires and an average of 7.2 million acres impacted per year. In 2022 alone, 68,988 wildfires burned 7.6 million acres.

California has always been fire-prone, the link between climate change and larger, more destructive fires is palpable. Rising temperatures, combined with the state's dry and flammable vegetation, mean the US state is at near-constant risk of extreme wildfires.

The Global Impact Credit fund's investment in PG&E's wildfire mitigation bond provides the company with capital to fund the expenses associated with wildfire prevention and risk mitigation. In turn, this will help improve the safety and reliability of service for the utility's customers.

Measured against our five dimensions of impact, we calculated the outcomes that would be financed by the new bond, as well as outlining the potential risks.

What?	The proceeds will finance a series of projects that aim to reduce the likelihood of wildfire ignition, enhance fire risk situational awareness and assessment, and reduce the frequency and impact of intentional power shutoffs on its customers.
Who?	People, planet - local communities in California.
How much?	$872 million (89% of proceeds) of capex directed towards wildfire mitigation.
Contribution?	PG&E to spend a cumulative $15.2bn over 2020-22 in their wildfire mitigation plan.
Risks?	1) Further wildfires that are linked to PG&E's equipment 2) Changes in regulatory framework that inhibits PG&E's ability to invest in the electricity network 3) Community opposition in new transmission and distribution (T&D) infrastructure

The impact investment is aligned to the first of our proprietary impact pillars (Climate & Resource Impact), to the second sub-pillar Nurturing circular economies and to the Climate Action SDG (UN SDG # 15 Life on land).

Impact Alignment

Impact Pillar
Climate & Resource Impact

Impact Sub-Pillar
Nurturing circular economies

UN SDG
15 LIFE ON LAND

The key performance indicators we have set for the bond are twofold: the area of forest protected from fires, as well as the greenhouse emissions reductions achieved by the projects funded by the bond.

KPI

of acres of forest area protected
CO2 emissions reduced by the funded projects

Finally, on the fundamental side, the bond was attractively priced at issue, yielding over 5 percent and offered at a discount to par. Its financial attractiveness is enhanced by the stability of the cash flows that are typical for an electrical utility company.

Case Study 4: Rady Children's Hospital Bond

A different type of impact investment is the T. Rowe Price Global Impact Credit fund's May 2021 allocation to an AA-rated $300m bond issued by Rady Children's Hospital, a non-profit hospital based in San Diego and the largest children's hospital in California.

In terms of the pressure point for this investment, 16 percent of children in the US live below the poverty line, making many basic healthcare services inaccessible for their families. Non-profit hospitals, such as Rady Children's Hospital, play a vital role in the quest to address such inequalities. The hospital provides healthcare access to otherwise underserved children, helping reduce child mortality and improve patient outcomes.

Providing direct capital to this issuer enables the hospital to fund improvement projects to renovate or expand existing facilities, and thus to improve the quality of care for patients and to increase healthcare access. In return, investors in our fund receive semi-annual fixed coupons.

We used our 'five dimensions of impact' model to confirm our impact thesis, highlighting the scope of the investment and the likely contribution to a positive impact outcome, as well as the potential risks in the investment.

What?	Reduce child mortality, improve patient outcomes, and increase access to healthcare services for unserved communities.
Who?	People – Children with acute & long-term health needs located near San Diego.
How much?	17,783 total inpatient admissions in FY 2022. 340 staffed beds at care facilities.154 affiliated medical residents and fellows (UC San Diego School of Medicine).
Contribution?	The proceeds will be used to fund quality care to patients and capital improvement projects to renovate/expand facilities. Increased funding will improve access to healthcare services and programs for underserved communities.
Risks?	Measurement risk - patient demographic statistics are collected infrequently (every 3-5 years).

The impact investment is aligned to the second of our proprietary impact pillars (Social Equity & Quality of Life), the fifth sub-pillar (Improving health) and to the Good Health and Wellbeing SDG (UN SDG #3).

Impact Alignment

Impact Pillar
Social Equity & Quality of Life

Impact Sub-Pillar
Improving health

UN SDG
3 GOOD HEALTH AND WELL-BEING

Finally, the key performance indicators for the Rady Children's Hospital include three metrics: the number of staffed beds, inpatient admissions and outpatient visits.

KPI

of staffed hospital beds, Inpatient admissions, Outpatient visits

The importance of diversity in the impact journey

Managing a successful Global Impact Credit investment strategy requires a highly inquisitive and curious mindset given the array of challenges that impact investing seeks to address, with many of the themes running through this asset class relating to transition and adaptation.

This means we need to cast our net wide to look far afield to find opportunities, sometimes in niche or specialist areas, and often in companies that are at the forefront of vital social and environmental change.

We look for bonds promising a positive social and/or environmental impact, at the same time, an attractive return stream for investors in the fund, with a dual mandate meaning the impact outcome and return are equally important.

Our rigorous proprietary frameworks help us identify opportunities, and then establish a methodology to measure and monitor the impact of each investment over time. We work closely with our current and potential portfolio companies to help lay the foundations and then progress through their impact journey. Finally, our comprehensive and transparent reporting provides investors with insights into how their capital is being allocated to reach the desired impact goals.

General Portfolio Risks:

Capital risk — The value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

Counterparty risk — An entity with which the portfolio transacts may not meet its obligations to the portfolio.

ESG and sustainability risk — May result in a material negative impact on the value of an investment and performance of the portfolio.

Geographic concentration risk — To the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.

Hedging risk — A portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.

Investment portfolio risk — Investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Management risk — The investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although, in such cases, all portfolios will be dealt with equitably).

Operational risk — Operational failures could lead to disruptions of portfolio operations or financial losses.

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the portfolio, and no assumptions should be made that the securities identified and discussed were or will be profitable.

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