



T.RowePrice

# U.S. Impact Equity

## Strategy Focus

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## Strategy summary

- The US Impact Equity Strategy invests sustainably with the aim of having a positive impact on the environment and society while seeking to outperform the S&P 500 Index Net 30% With holding Tax.
- The strategy invests mainly in the shares of U.S. companies that we believe have the potential to create positive social or environmental impacts, and that appear to offer superior growth prospects and investment characteristics, such as strong earnings and cash flow generation underpinned by a resilient business model.
- Our investment approach is aligned to the United Nations Sustainable Development Goals (UN SDGs). The framework guides how we assess business activities and quantify their alignment to our two proprietary impact pillars—climate and resource impact and social equity and quality of life—and six impact sub-pillars.
- Our fundamental research platform, in collaboration with our dedicated Responsible Investing (RI) team—which is focused on environmental, social, and governance (ESG) issues—provide the resources and diverse perspectives to build a positive impact portfolio.
- We aim to be additional, demonstrated by our commitment to promote and progress the impact agenda. This includes directing fresh capital toward desired outcomes, impact-oriented company engagement, active proxy voting, and the associated feedback loop.

## Investment Philosophy

Our investment process is founded on our Impact Charter, which comprises four guiding principles that serve as a framework for how we develop impact portfolios and invest for positive long-term outcomes as outlined below:

### Identifying Impact Investments Using Our Impact Charter

Our investment process embeds clear principles of materiality and measurability and forms the basis for identifying positive impact for clients. We adopt a forward-looking perspective on change, while aiming to ensure that all investment decisions are based on a clearly defined positive impact thesis. We also aim to be additional by committing to using our scale and resources to promote and progress the impact agenda.

Due to the very complex friction points that exist for our planet and our global community, delivering impact requires patience and an

understanding of change. This is why being resilient in applying an impact-oriented investment approach is imperative.

Our approach aligns with the UN SDGs, a globally recognized framework designed to end poverty, protect the planet, and ensure prosperity. We believe this is the best way to align all stakeholders in the impact journey, encompassing our clients, our investment team, and the companies our strategy owns.

### Durability and Time Horizon Are Key

Stocks have the potential to deliver superior returns when the durability and persistence of earnings and cash flow are underappreciated by the market or where economic return improvement is mispriced. Adopting a long-term view allows us to identify inefficiencies embedded in equity markets, especially in an era of change, disruption, and shortened time horizons. We also apply a long-term investment horizon when measuring impact, given the patience and resilience that our environmental and social transition journey necessitates.

## Our impact charter

### Material



Each stock must be aligned to specific impact pillars, embedding a well-defined theory of change for both asset and investor contribution.

### Measurable



Our impact measurement approach is multi-dimensional and security-based, using insights from our research platform and company engagements.

### Additional



We commit to using our scale and resources to promote and progress the impact agenda.

### Resilient



In an era of disruption and extreme outcomes, patience and skillful portfolio construction is important.

**Impact is about the present, but includes dimensions of change and persistence. Impact requires conscious action, skillful execution and the commitment of additionality.**

## Secular Change Matters

Investing in companies that we believe prioritize secular change is key to unlocking improving economic returns in business models, especially in an era of shifting consumer, business, and regulatory preferences. While impact investing has traditionally been associated with private investments, the opportunity to own and engage with companies that create a positive impact is broader than ever before in public equity markets.

### Research Is Crucial

Based on our fundamental and responsible investing research resources, our approach produces a holistic view of companies and embodies the different perspectives necessary to invest for future impact and pursue better investment outcomes. We integrate our stock perspectives to identify, in our view, impact and mispriced economic return improvement on a stock-by-stock basis. We apply a forward-looking, research-driven, and high-conviction approach to our stock choices. This is important with respect to prudent risk management, as well as alignment with the UN SDGs, as we seek to engage with the full breadth of impact opportunities that exist in an evolving and complex world.

## Portfolio Management

David Rowlett is the portfolio manager for the US Impact Equity Strategy. He has 21 years of investment experience and joined T. Rowe Price in 2008, beginning as an investment analyst in the U.S. Equity Division focusing on aerospace, defense, and multi-industrial companies. Earlier in his career, David held analyst, portfolio manager, and investment banker roles.

He has always believed investing plays an important role in society—delivering long-term financial performance to help clients meet future needs, such as education and retirement. David brings a passion for pursuing environmental sustainability, zeal for contributing to positive social change, and extensive fundamental understanding of the investment landscape.

While David has ultimate responsibility for investment decisions, he is closely supported by team analyst Kaoutar Yaiche, who specializes in incorporating environmental and social considerations into the research process. She joined T. Rowe Price in 2021, having previously been employed by an independent power producer developing wind and solar farms in emerging markets, a clean-technology startup, and a climate-focused venture capital firm.

The search for high-quality impact ideas is supported by T. Rowe Price Associates, Inc.'s world-class research platform. The team also works closely with the analysts on our Responsible Investing (RI) team, particularly on developing impact models for companies and measuring the potential and actual impact from an investment.

An Investment Advisory Committee, consisting of senior T. Rowe Price equity investment professionals, also assists the portfolio management team by discussing, reviewing, and recommending potential investment ideas.

### Our Impact Investment Pillars guide our decision-making

Our impact investing process is grounded in the theory of change (TOC) methodology, which includes both asset contribution and investor contribution. A TOC identifies the problem to be solved and then applies logic to measure and manage the impact potential of a given investment. We invest in specific business activities (which are formalized in our proprietary classification called the “Impact Pillars”) that contribute to achieving a positive environmental and social impact (asset contribution). As impact investment managers, we also aim to contribute to positive impact mainly through stewardship and/or provision of new capital (investor contribution).

### Two impact pillars guiding our decision-making

T. Rowe Price Pillars & Sub-pillars

Climate and resource impact

1. Reducing greenhouse gases (GHGs)

2. Promoting healthy ecosystems

3. Nurturing circular economies

Social equity and quality of life

4. Enabling social equity

5. Improving health

6. Improving safety and security

UN SDG Alignment

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

14 LIFE BELOW WATER

15 LIFE ON LAND

1 NO POVERTY

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

11 SUSTAINABLE CITIES AND COMMUNITIES

14 LIFE BELOW WATER

15 LIFE ON LAND

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

T. Rowe Price uses a proprietary custom structure for impact pillar and sub-pillar classification. The UN SDGs encompass 17 goals. For further information, please visit <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>. The trademarks shown are the property of their respective owners. Use does not imply endorsement, sponsorship, or affiliation of T. Rowe Price with any of the trademark owners.

\* Screening is generally applied only to the relevant issuer or company itself and to its subsidiaries. Minority holdings (less than 50% ownership) are generally not considered for screening purposes. Some portfolios may apply additional screens as required to satisfy certain local market / labels requirements.

### Defining the Impact Investment Universe

Given our dual mandate, we use a custom universe which we define through two key processes: exclusionary using our proprietary T. Rowe Price Impact Exclusion List and inclusionary through impact analysis. The impact exclusion list excludes areas of the global economy that, in our view, generate significant harm and stocks that screen\* individually on conduct-based metrics.

Please refer to The T. Rowe Price Exclusion policy for more details on these exclusions:

 [T. Rowe Price Impact Exclusion List](#)

The inclusionary process embeds a a materiality assessment based on revenues to evaluate whether an issuer’s product or services deliver positive impact. To be eligible for inclusion in one of our impact portfolios, at least 50% of a company’s revenues or profits must be aligned with at least one impact sub-pillar.

It also includes a impact analysis, which is based on external industry-recognized frameworks. This more qualitative stage of the process helps us assess a company’s ability to deliver impact holistically, including the risks that may affect its ability to deliver the targeted impact.

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## Portfolio Construction

In constructing the portfolio, David leverages the analysis produced by the fundamental research platform and the RI team and applies his judgment to create a primarily U.S. focused portfolio of typically 40 to 60 of his highest-conviction opportunities within the impact universe. These are stocks with clear impact and financial return markers, based on product, industry, governance, and growth potential. David closely collaborates with our team of sector analysts to conduct thorough, fundamental analysis to identify the most attractive stock-based opportunities, integrating our perspectives on financial returns alongside the positive and negative impact of business activities. All stock selection decisions begin with a clearly defined positive impact thesis, which proactively and systematically integrates ESG considerations.

The RI team's proprietary Responsible Investing Indicator Model (RIIM), which systematically and proactively evaluates the RI profile of over 15,000 corporate securities, helps assess the quality and long-term sustainability of the investee companies.

Our philosophy is that ESG factors cannot be a separate or tangential part of a traditional investment thesis; they have to be integrated alongside fundamental factors to help create the best outcome for clients. The process of ESG integration takes place on two levels: first, with TRPA's research analysts as they consider environmental, social, and governance factors as part of the overall security valuations and ratings process, and second, with TRPA's portfolio managers as they balance ESG factor exposure at the portfolio level. Both the analysts and portfolio managers are able to leverage dedicated, in-house resources to assist them in analyzing ESG criteria.

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## Measuring Impact

Given our mandate's dual nature, impact measurement and management are integral to our investment process. We believe that measuring and managing impact fulfills three objectives:

1. To monitor our investments' progress toward clearly defined outcomes through key performance indicators (KPIs).
2. To assist in our corporate engagements and to ensure that we identify any deviation from our impact and investment thesis.
3. To report progress and impact delivery to our clients.

We use the "five dimensions of impact framework" to carry the impact due diligence of a given stock. This framework was developed by the Impact Management Project, an impact practitioner community of over 2,000 organizations.

For certain types of investments, including, but not limited to, cash, currency positions, and particular types of derivatives, an ESG analysis may not be relevant or possible due to a lack of data. Where ESG considerations are integrated into the investment research process, we may conclude that other attributes of an investment outweigh ESG considerations when making investment decisions.

This framework leads to assessing a company's ability to deliver impact on a holistic basis, including the risks that may affect its ability to deliver the targeted impact. The five dimensions are:

1. What is the impact goal?
2. Who experiences the outcome?
3. How much of the outcome is occurring (scale, depth, and duration)?
4. Contribution—Would this change likely have happened anyway?
5. Risk—What is the risk to people and the planet if the impact does not occur as expected?

Within this process and depending on data availability, we also use guidance and metrics from the IRIS+ Catalog of Metrics, developed by the Global Impact Investing Network (GIIN). This analysis leads us to formalize an impact thesis, highlight negative externalities and risks, and define KPIs for each stock.

As part of our approach to impact measurement, we use a "Theory of Change" model, which we believe provides a clear and comprehensive framework to evaluate how the efforts of each holding are delivering impact, through the measurement of achieved outcomes.

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## Accelerating Impact Through Active Ownership

We believe impact is achieved within an investment portfolio in more ways than simply owning and capturing the economics and activities of certain types of companies. Our approach involves directing fresh capital toward desired impact outcomes alongside impact-oriented company engagements, proxy voting, and the associated feedback loop.

## Engagement Program

Our engagement program aims to ensure our investments and impact objective are successfully delivered. This includes engaging with the underlying issuers or companies with the dual objective of:

- Furthering the delivery of the intended positive impact outcome by encouraging, accelerating or enhancing such outcome in line with the investment's impact thesis; and/or
- Mitigating any material negative environmental or social impacts resulting from pursuing the impact outcome in line with the investment's impact thesis.

The central focus of our engagement program is at the company level. We identify engagement topics through our proprietary impact analysis framework, RIIM analysis, governance screening, and our analysts' fundamental research.

Our long-term ownership approach enables a constructive engagement with our portfolio companies. We believe that issuers that are focused on addressing environmental and societal challenges will experience increased demand for their products and services, along with favorable regulatory support in the long run. Therefore, our goal of achieving meaningful impact is aligned with the strategy's objective of delivering strong financial performance.

## Proxy Voting

Proxy voting is a crucial link in the chain of stewardship responsibilities. Each vote represents both the privileges and the responsibilities that come with owning a company's equity instruments.

To complement the engagement program, the strategy follows the investment manager's proprietary impact proxy voting guidelines. A customized set of proxy voting guidelines helps us establish governance norms and follow a differentiated stewardship approach. For example, voting may focus on topics tied to the strategy's theory of change (i.e. diversity and climate) or may focus directly on the impact activity expected to be achieved by a specific company.

We use our voting power in a way that complements the other aspects of our relationship with these companies, including engagement, investment diligence, and investment decision-making.

## Disciplined Approach to Risk

We do not believe that an investment approach can be successful if risk is viewed as something distinct from the rest of portfolio management. Accordingly, we incorporate risk management throughout every step of our investment processes.

The US Impact Equity Strategy applies a high-conviction, impact-oriented approach but with a mindset that valuation matters in generating alpha and in managing absolute and relative risks. We maintain a focus on companies that we believe offer a positive impact today and an underappreciated impact in the future, as well as durable and superior earnings and cash flow growth; strong, thoughtful management teams; expert capital allocation; and attractive industry structures. We inherently believe in our ability to identify such businesses during challenging times and will always take an active approach to diversification, challenging ourselves on the individual and aggregate risks to which we are exposed.



**When investing, certain risks apply, which include:**

**Small and mid-cap** - Small and mid-size company stock prices can be more volatile than stock prices of larger companies.

**Issuer concentration** - Issuer concentration risk may result in performance being more strongly affected by any business, industry, economic, financial or market conditions affecting those issuers in which the portfolio's assets are concentrated.

**Sector concentration** - Sector concentration risk may result in performance being more strongly affected by any business, industry, economic, financial or market conditions affecting a particular sector in which the portfolio's assets are concentrated.

**General Portfolio Risks**

**Equities**

**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.

**Equity risk** - in general, equities involve higher risks than bonds or money market instruments.

**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.

**Conflicts of interest 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.

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