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In-depth analysis and insights to inform your decision making.

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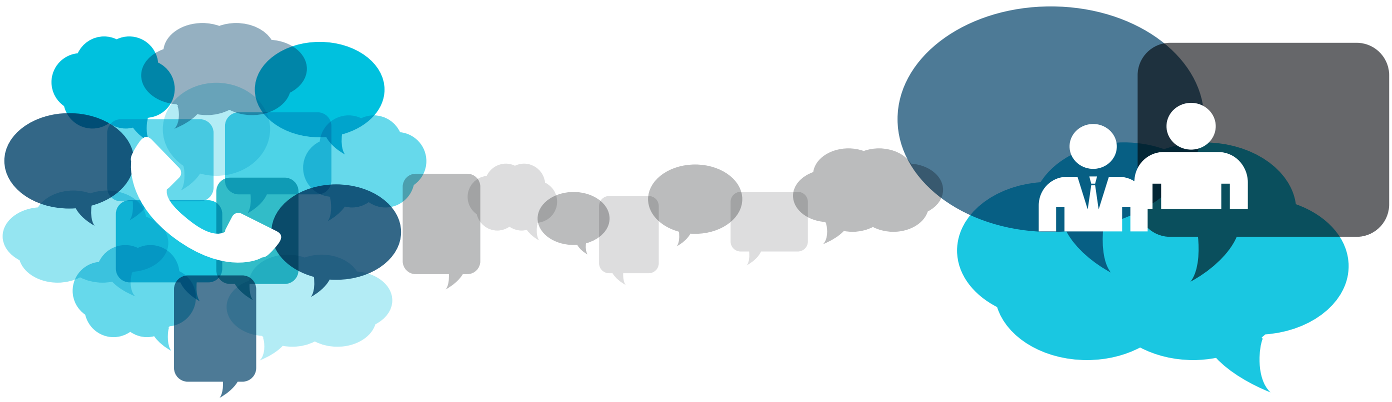
Environmental, Social and Governance: A SPECTRUM OF ENGAGEMENT INTENSITY

At T. Rowe Price, engagement, proxy voting activities and assessment of a broad range of investment considerations (including environmental and social issues) are integrated into our equity investment process. In our view, the following questions are, at their core, investment issues:

- Who represents shareholders on a company's board?
- What drives the executive incentive program?
- How robust are shareholders' rights at the company?
- How is the company managing its environmental risks, human resources, facilities, stakeholder relations and long-term access to critical resources?

Based on this view, our engagement program is driven by portfolio management and is supported by the expertise of our industry-focused analysts and our in-house specialists in corporate governance and sustainability. Because our engagement priorities are so tightly connected to our investment views on a company, we conduct privately our company-level engagement activities. (By contrast, we tend to work collaboratively with other shareholders on a policy level, such as advocating with regulators for better disclosure or stronger shareholder rights.)



LIGHT ENGAGEMENT
- ↑ High number of brief engagements
- ↓ Fewer resources devoted to eachengagement

MODERATE ENGAGEMENT
- Modest number of engagements
- Moderate resources devoted to each engagement

HEAVY ENGAGEMENT
- ↓ Low number of intensive, often multi-year engagements
- ↑ More resources devoted to each engagement

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LIGHT ENGAGEMENT

On one side of the barbell, we hold hundreds of short, direct conversations with companies over the course of each year, focused on issues that may fall outside the scope of our analysts' normal, ongoing due diligence meetings with companies. More than 80 percent of these engagements are conducted via conference call and do not involve board members. Typically, the parties involved are the company's General Counsel and subject-matter expert, our industry analyst, and our governance or sustainability specialists. The purpose of these conversations is for us to gather information about a specific topic of an environmental, social or governance nature. It may be a general exchange of views on the topic, or it may be a conversation centered on an upcoming vote.

Over time, we have found that these brief exchanges add to our overall mosaic of information about the company. We develop relationships with our counterparts within these companies, which leads to more opportunities to discuss the issues we see as most important. The frequency of contact — generally once or twice a year — gives us a good sense of the pace of change with which the company is addressing any concerns we've raised.

For example, we frequently initiate short-term engagements with companies when we discover that they are poorly rated by our external research providers who specialize in environmental and social risks. Often, we learn that a poor relative ranking by these third-party services is driven more by spotty disclosure than by poor risk management. We find that small- and mid-cap companies rarely receive feedback from their investors about their disclosure on corporate responsibility issues, so they devote few resources to reporting or engagement on those issues. As a consequence, they are poorly rated by external research providers. In our experience, this problem is often easily addressed.

HEAVY ENGAGEMENT

The other side of the barbell, for us, is characterized by a deep investment of time and resources. These engagements are intense, in-depth exchanges with a company's management or board, often extending over more than a year. Typically, they are initiated with a formal letter to the board, followed by multiple in-person meetings.

The purpose of this type of engagement is to share our perspective with the board about what we view as a significant impediment to our ability to meet our investment goals, and to explore ways to work constructively with the company to remove the impediment.

A recent example of this type of engagement had to do with the mix of skill sets on a pharmaceutical company's board. Several years before, this company experienced a period of financial distress, and as a result the board became populated with turn-around experts, bankers and directors with distressed-debt experience. This group of directors successfully executed a turn-around,

CRITERIA FOR "HEAVY ENGAGEMENT"

Before embarking on any engagement of this variety, consider the following questions:

- Are we significant shareholders?
- Do we expect to remain long-term shareholders of the company? Do we understand the company well? Are we prepared to devote significant resources toward resolving this situation? In short, do we have standing to engage with this board?
- To the extent there are multiple portfolio managers who own the security, do they all agree on the nature and extent of the problem?
- Do our firm's clients own other securities of this company (for example, its debt instruments)? If so, have we communicated effectively on an internal level before requesting dialogue with the company?
- Do we have both a concrete understanding of the problem and a constructive solution to offer?

and the company was able to invest in its drug pipeline again. However, it had entered a stage when it was failing to reach critical milestones, experiencing serious patient-safety issues and reporting consistently disappointing financial results. In our view, the board's lack of medically trained experts and practitioners was one reason for the persistent problems. Over two years, we advocated for a renewed focus on director skills and qualifications, given the changing nature of the company's challenges.

MODERATE ENGAGEMENT

There are engagement activities in the middle of the barbell where we tend to be less involved. We do not generally employ issue-specific screens to identify engagement targets, or write large numbers of letters to our portfolio companies expressing a view on a general sustainability topic. For some investors, these seem to be effective mechanisms to initiate dialogue, but we believe our barbell approach is best suited to our firm's resources and investment strategies.

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