

Our in-house ESG specialists have built tools to pro-actively and systematically identify ESG risks embedded in our investments. Investors across all asset classes benefit from these insights.

Rob Sharps
Head of Investments, T. Rowe Price



ESG AT T. ROWE PRICE

At T. Rowe Price, our central mission is to help our clients reach their long-term financial goals. Consistent with that objective, we have an obligation to understand the long-term sustainability of the companies in which we invest – which is why environmental, social and governance (ESG) factors are a key consideration in our investment approach.

DEFINING ESG AT T. ROWE PRICE

It is important to set out what we mean by 'ESG' and how we approach it, as the umbrella term has given rise to a myriad of interpretations in the asset management industry.

As a signatory of the United Nations-supported Principles for Responsible Investment (UNPRI)¹ since 2010, we subscribe to the association's definition of ESG integration as considering ESG factors to enhance investment performance. We believe our investment decisions are better informed when we consider these factors alongside more traditional financial, industry-related, macro-economic and other qualitative indicators.

In addition to using ESG-integration as a tool to enhance investment decisions, we also incorporate ESG factors in select portfolios to help our clients meet a specific values goal. This type of portfolio is usually classified as a 'socially responsible investment' and managed through separate accounts or funds with an explicit approach.

Integrating ESG considerations into our fundamental research has helped the firm identify well-managed companies that are leaders in their industries, more forward-thinking, better at anticipating and mitigating risk, and focused on the long term.

Bill Stromberg | President and CEO, T. Rowe Price

INTEGRATING ESG INTO OUR INVESTMENT PROCESS

We believe ESG integration is most effective when executed by experienced investors who know the company or issuer well, which is why the responsibility for integrating ESG into investment decisions at T. Rowe Price lies with our analysts and portfolio managers. Our research analysts incorporate ESG factors into company valuations and ratings, while our portfolio managers balance the ESG factor exposures at a portfolio level. Our in-house ESG specialists support the investment team through all stages of the investment process: identification, analysis and integration.

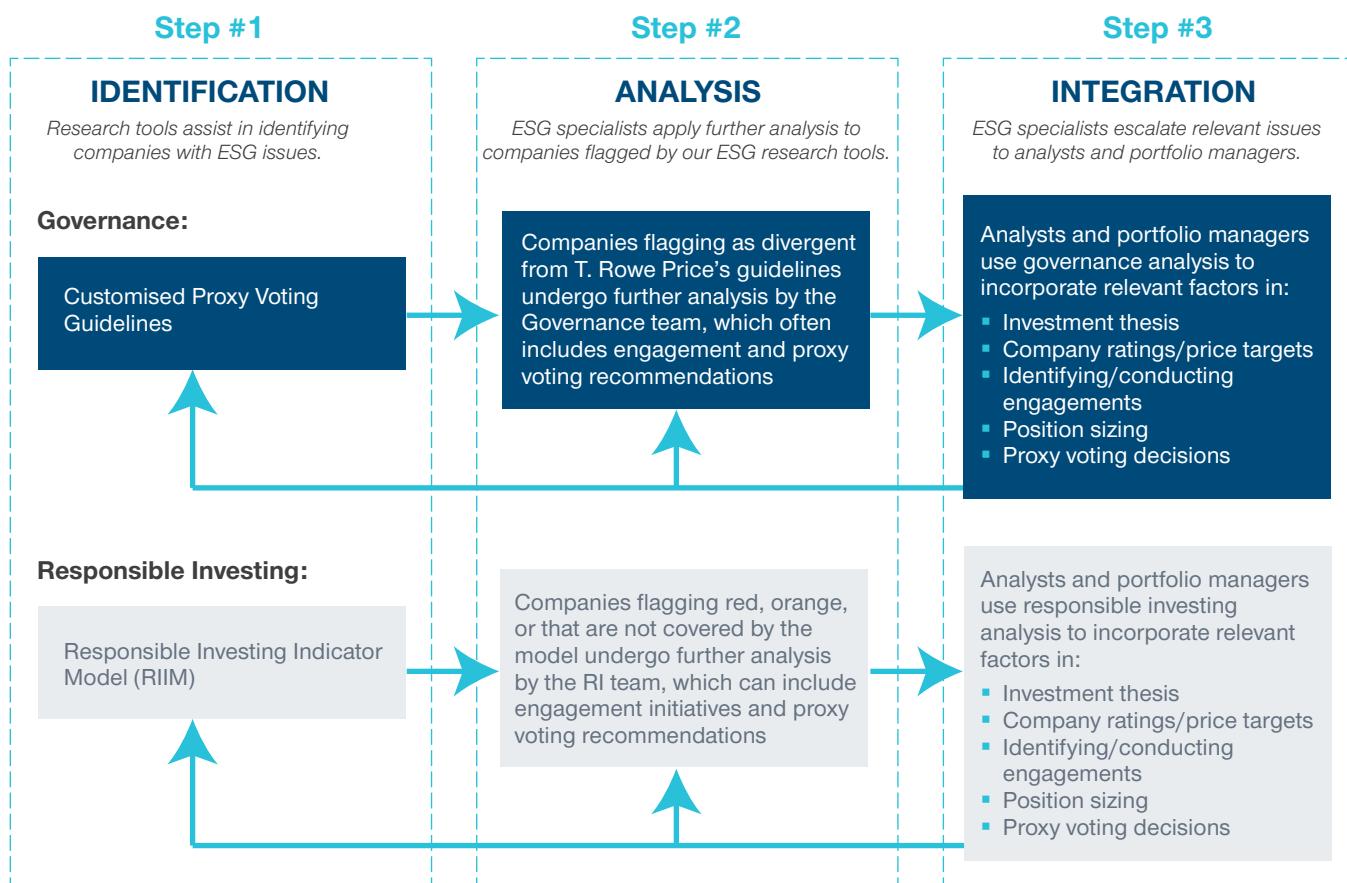
¹Launched in 2006, the Principles for Responsible Investment (PRI) are a set of voluntary best-practice standards that asset owners and asset managers pledge to uphold in order to incorporate environmental, social, and governance (ESG) issues into their investment processes.

INTEGRATING ESG INTO OUR INVESTMENT PROCESS (continued)

While ESG terminology tends to group environmental, social and governance factors into one bucket, we believe the 'E' and 'S' factors need to be treated differently to the 'G' factor. Corporate governance standards are well established and generally uniformly disclosed across the world, while disclosure of environmental and social factors is comparatively limited. Additionally, some factors we screen for in our 'E' and 'S' analysis fall outside the normal scope of company disclosures,

such as strained relations or incidents with various stakeholder groups.

As a result, our dedicated in-house ESG resource comprises two teams: **Responsible Investing** ('RI'), which covers environmental and social factors, and **Governance**. Collectively, these teams help our investors identify, analyse and integrate the ESG factors most likely to have a material impact on the long-term performance of an investment.



RESPONSIBLE INVESTING

To help our analysts and portfolio managers consider the impact of environmental and social factors, the RI team conducts analysis on individual securities as well as the wider portfolio. It also assists with company engagement.

Since 'E' and 'S' data points are not always readily disclosed by companies and other issuers, we have built a proprietary model that systematically and

proactively screens the RI profile of an investment. This model is called the Responsible Investing Indicator Model (RIIM).

The most basic utility of RIIM is that it flags any elevated RI risks with an investment. But RIIM can also serve to identify investments with positive RI characteristics and manage RI factor exposures at the portfolio level.

RESPONSIBLE INVESTING INDICATOR MODEL (RIIM)

RIIM uses ESG data from 3rd party vendors, T. Rowe Price databases and company reports to cover a universe of approximately 7,500 corporate entities. For investments not covered by RIIM our RI team screens for environmental, social and ethical controversies using a third-party provider and – where enough information is available – conducts a fundamental evaluation of the company's ESG profile.

There are four main reasons why we think RIIM is an improvement on third-party vendor analysis:

1 IMPROVED MATERIALITY

- RIIM aligns 'E' and 'S' factor materiality with investment materiality.
- RIIM helps to screen out 'green-washing' efforts.
- Factor materiality is more accurate as it is assessed at the sub-industry level.

2 IMPROVED COVERAGE

- RIIM provides systematic and proactive analysis beyond that of third-party vendors.

3 FEWER 'FALSE ALARMS'

- RIIM information is more up-to-date.
- Companies can receive poor ratings for lack of disclosure when there is no record of negative incidents.
- Companies may rank as 'underperformer' or 'laggard' because a third-party vendor has force-ranked the industry, when in reality RI practices are not that differentiated between high and low scoring companies in the industry.

4 COMPATIBILITY WITH T. ROWE PRICE'S INVESTMENT STYLE

- Our proprietary model is designed for practical application by our analysts and portfolio managers.

GOVERNANCE

Our in-house Governance team works directly with analysts and portfolio managers to assess governance issues among existing and potential investments. They also help engage with companies and facilitate proxy voting.

Governance analysis starts with our proxy voting guidelines, which are set annually by our proxy voting committee that is predominantly comprised

of investors. In addition to informing our proxy voting process, the guidelines reflect T. Rowe Price's perspective of the appropriate governance standards in each region.

If a company is flagged as divergent, it will be subject to further analysis by our governance team. This stage often includes engagement and proxy voting recommendations.

Our approach to governance analysis is differentiated because it is:

- **Investment-driven:** Portfolio managers and analysts often raise and identify areas of concern.
- **Conducted in-house:** Voting and engagement decisions are not outsourced.
- **Flexible:** Governance standards are evaluated in light of regional, industry and company circumstances.
- **Compatible with our investment style:** Because governance is embedded into our investment process – and portfolio managers are involved – we ensure our governance and investment priorities are aligned and there is a coherent external message.

COMPANY ENGAGEMENT

Our engagement program is a natural extension of our investment process. When we identify a practice or decision we believe will have negative long-term financial repercussions for our clients, we will engage with the company. In our experience, engagement is most effective when it is directly led by our portfolio managers in the form of formal written communication, meetings and calls with management or the company's board.

Occasionally we participate with other investors in industry-level initiatives aimed at improving disclosure or business practices on a market-wide level. However, the central focus of our engagement program is at the company level. We believe this has the highest impact because it is aligned with our core investment approach: active management rooted in fundamental investment analysis.

PROXY VOTING

Proxy voting is a critical component of our corporate governance approach, and we offer our clients a high degree of visibility over the votes we cast on their behalf. Disclosure of our voting guidelines and record can be found on our corporate website.

Shareholder proposals relating to environmental or social concerns have become more frequent in recent years. We take a case-by-case approach to analysing these proposals, leveraging research reports from our external proxy advisor, company filings and sustainability reports, public research from other investors and non-governmental organisations, our internal industry research analysts, and our in-house sustainability experts. Generally, we support proposals that stand to improve a company's business model.

EXCLUSION LISTS

Negative screening or exclusion based solely on ESG factors needs to be paired with a client's value requirements. In other words, where a decision to exclude a security is made without consideration of other investment factors – such as financial fundamentals and valuation – there is the potential for a trade-off of financial returns in exchange for a value-driven objective. In the case of many of our institutional clients, we implement an exclusion policy through the use of segregated accounts and funds with an explicit approach.

All portfolios are subject to sanction-related exclusions. At any point in time, a portfolio may be prohibited from investing in certain sovereign or corporate instruments associated with targeted US or international sanctions. For example, we have a global

exclusion list of issuers with significant business ties to the government of the Republic of Sudan and its connection to human rights abuse.

In addition we have a limited set of exclusions across our investment portfolios. For example, in some of our portfolios, we maintain an exclusion policy on certain issuers deemed to be engaged in the on-going manufacture, production, or assembly of anti-personnel land mines, cluster-munitions systems and incendiary weapons.

The screening policy is developed by our RI team and approved by our steering committees. Exclusions are typically set annually but could change during the course of the year if warranted.

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