T. Rowe Price
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# T. Rowe Price Emerging Markets Discovery Equity Pool – ESG Report

## Providing transparency on Environment, Social and Governance aspects of the fund

*As of 30 June 2022*

### ESG INTEGRATION APPROACH

- The Emerging Markets Discovery Equity Pool uses ESG integration as part of its investment process. This means incorporating environmental, social, and governance factors to enhance investment decisions. Our philosophy is that ESG factors are a component of the investment decision–meaning that they are not the sole driver of an investment decision, nor are they considered separately from more traditional analysis.

- The process of ESG integration takes place on two levels: first, with our research analysts as they incorporate environmental, social, and governance factors into company valuations and ratings; and, second, with the portfolio manager as he balances these ESG factor exposures at the portfolio level. Both the analysts and portfolio manager are able to leverage dedicated, in-house resources to assist them in analyzing ESG criteria.

- Our ESG specialist teams provide investment research on ESG issues at the company level and on thematic topics. Additionally, they have built tools to help pro-actively and systematically analyze the environmental, social and governance factors that could impact our investments. The foundation of the analysis is a proprietary flagging tool called the Responsible Investing Indicator Model (RIIM). It covers approximately 15,000 securities and pulls from data sets that are not in the wheelhouse of traditional financial analysis. These data sets include:
    - ESG performance data (i.e. number of accidents, carbon emissions, strength of whistle-blower programs);
    - ESG targets (i.e. plans to reduce carbon emissions, increase diversity, etc.)
    - ESG incidents and controversies (i.e. environmental fines paid, local community controversies/protests against a company, etc.)

- Our approach to environmental and social factor integration is differentiated at the sector and industry levels, where our RIIM model helps us to determine the materiality of any given factor.  Material ESG factors play an integral part in our risk/reward assessment of each company.  Once all the factors have been assessed, the conclusions can influence whether to include or exclude the company or at what weight to add the company to the portfolio. Usually, ESG factors are considered as a component of the final investment decision.

### RECENT COMPANY ENGAGEMENTS

We maintain a regular dialogue with the management teams of companies represented across the portfolio. Our investment-driven engagement program frequently identifies targets through our proprietary RIIM analysis, governance screening and analysts' fundamental research. While we engage with companies in a variety of different contexts, ESG engagement focuses on learning about, influencing or exchanging perspectives on the environmental practices, corporate governance or social issues affecting their business.

While most of the meetings we hold with company managements will include some discussion of ESG topics, we differentiate meetings held with a heavy focus on ESG, meaning ESG issues were the sole items on the agenda or made up a meaningful part of the meeting. Agenda items are classified as "meaningful" when they take up a significant portion of the meeting or are a significant factor in the investment case.

The following are selected examples of recent engagements with companies held in or considered for the portfolio. The examples are not meant to be representative of every engagement held, but to illustrate the types of ESG engagements we are having with the managements of our investment companies.

## Sempra Energy (1st Quarter 2022 Engagement)

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| **Focus** | Environment, Social |
| **Company Description** | Sempra Energy is a utility and energy infrastructure company. It owns two California-regulated utilities, San Diego Gas & Electric and Southern California Gas. |
| **Engagement Objective** | We engaged with Sempra Energy for a follow-up discussion on its climate lobbying activities. |
| **Participants** | From Sempra Energy: Governance and Corporate Secretary; Corporate Affairs and Chief Sustainability Officer; Investor Relations Representative; Chief Human Resources Officer; Sustainability Representative, Deputy General Counsel<br><br>From T. Rowe Price: Head of Corporate Governance; Corporate Governance Analyst; Investment Analyst, Responsible Investing Analyst |
| **Engagement Outcome** | We engaged with Sempra Energy for a follow-up discussion on climate lobbying—this issue has been particularly visible for the company since a shareholder resolution filed in the 2021 proxy season requested increased disclosure related to it climate lobbying activities. We believe the company has made good progress since then, including publishing a statement on how it thinks about its lobbying activities and trade associations as well as how each trade membership relates to its net-zero aspirations. It has also developed a standardized template for trade associations to communicate their positions on climate issues—this shifts the burden from the company to the trade associations themselves and we view this as a very positive initiative. So far, the Edison Electric Institute has completed the lobbying template, and Sempra Energy is pushing others (e.g. the American Petroleum Institute (API)) to do the same.<br><br>In 2021, Sempra Energy set a target for net-zero emissions across scopes 1-3[1] by 2050, as well as targets related to emissions in its value chain and at its operating companies. Sempra Energy is currently evaluating additional targets. The company is also looking specifically at its scope 3 emissions and the accounting methodologies for upstream emissions. It is looking to advance reporting on this topic, as well as setting short- and medium-term targets related to these emissions.<br><br>Methane emissions in the natural gas industry are under particular scrutiny today. Through the API, Sempra Energy is working to create an auditable methodology for accounting for methane emissions and to distinguish between natural gas producers based on their emission intensity. At San Diego Gas & Electric and Southern California Gas, the company is also working to improve methane leak detection with drones, surveys, and smart meters. Sempra Energy has a target for net-zero electricity by 2045 which aligns with the state-level target in California.<br><br>Sempra Energy's Board has been very active in promoting diversity, equity & inclusion (DE&I), and there is already a diversity metric within its compensation program. The company recognizes that there is room for further improvement—investors want more transparency around DE&I and it will be providing EEO-1 reporting (a mandatory annual data collection requiring large, private-sector employees to submit demographic workforce data) alongside its upcoming sustainability report.<br><br>Sempra Energy has made good progress related to climate lobbying and we believe that its standardized template for trade associations to outline their position on climate issues is a very positive initiative. We were also pleased to hear about the progress that the company is making to increase its reporting/transparency on value chain emissions and DE&I. We will continue to monitor the company's ESG disclosure and provide feedback as necessary. |

[1] Scope 1 (direct emissions from owned or controlled sources), scope 2 (indirect emissions from the generation of purchased electricity, steam, or cooling), scope 3 (all other indirect emissions).

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## Meituan (2nd Quarter 2022 Engagement)

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| **Focus** | Environment, Social, Governance |
| **Company Description** | Meituan is a food delivery platform company in China. |
| **Engagement Objective** | We engaged with Meituan to discuss the company's rider and merchant welfare practices and its ESG governance structures. |
| **Participants** | From Meituan: Investor Relations<br>From T. Rowe Price: Equity Portfolio Manager; Head of Governance, EMEA and APAC; Responsible Investing Analyst |
| | The purpose of our engagement with Meituan was to do due diligence on the company's rider and merchant welfare practices and to assess the quality of its ESG governance structures. After a nudge from China's government in 2021, Meituan embedded various programs to help improve safety performance. Regulators attempted to prescribe the relationship between platform companies and delivery riders, and we believe that the initial requirements (e.g., platforms should ensure riders get minimum wage and have insurance) will be stepped up in the coming years. We believe that Meituan is committed to evolving its rider benefits package in line with the requirements going forward.<br><br>Poor disclosure of rider safety performance remains a concern. Meituan is opaque when it comes to disclosing safety/accident rates of riders and rider satisfaction (none of China's food delivery players currently share this data). The company said it collects and monitors rider safety and satisfaction information but does not share it externally. Another concern is that Meituan's pay algorithms could encourage riskier driving, with bonus points awarded for faster deliveries. There is no working hour limit for most riders since 70% of Meituan's riders are not classified as full-time.<br><br>Regarding rider protections, Meituan increased the rider protection requirements for third parties, which employ the company's riders. Meituan said that riders are required to undergo compulsory training and are given safety equipment in its core cities. The company said that it adjusted its algorithms in ways to reduce stress placed on riders. It is also in the process of ensuring that all riders are covered by accident insurance, a cost currently shouldered by delivery partners and riders. Regarding merchant welfare, Meituan pointed to various measures aimed at reducing the coronavirus's impact on businesses, e.g., reducing the take rate for small merchants.<br><br>On the environmental front, Meituan pointed to its 2017 "lush mountain project" to promote biodegradable packaging, but its penetration appears limited. The company said it aims to decarbonize its business in line with China's 2060 carbon neutral goal. Meituan's board and management oversee key ESG issues, but the company lacks a sustainability or ESG team. No ESG performance-linked remuneration incentive currently exists, but management said it may introduce key performance indicators (KPIs) in the future.<br><br>We requested that Meituan disclose rider safety data and KPIs that can demonstrate improving performance. We will continue to monitor the company's ESG disclosure and development of a more comprehensive sustainability strategy. |

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