

# 3D Fund Profile: T. Rowe Price Global Impact Credit

November 2023



3D Rating:



3D Fund Classification: **Impact**

This fund has a clear intent to make a wider positive social or environmental impact, substantiated by investment in companies providing solutions to social and/or environmental challenges through their core products and services, with evidence provided.

**Fund Summary**

This strategy has the sustainable objective of investing in securities that the manager, Matt Lawton, believes generate positive environmental and/or social impact. As a consequence of the strategy's minimum 50% revenue alignment to one of the fund's three impact themes, a five-stage materiality and impact assessment, and a comprehensive group-level exclusionary screen, we believe that the manager has achieved this sustainable objective. While there is some material controversial activity exposure, we are confident that each company flagged is in compliance with the fund's exclusionary screen and generates meaningful positive impact according to our 3D framework. Additionally, the reporting elements of this strategy are impressive, with the annual Impact Report providing extensive impact outcomes, KPIs, carbon reporting, and engagement success.



Key Facts as at 30/09/2023	
Manager	Matt Lawton
The Fund's Objective	To have a positive impact on the environment and society whilst at the same time seeking to increase the value of its shares through both growth in the value of, and income from, its investments over a full market cycle (a minimum of 5 years).
Launch Date	14/12/2021
Structure	OEIC
ISIN Code	GB00BMHN8H86
Currency	GBP
Size	£16.7m
Sector	Sterling Corporate Bond sector
The Fund's Official Benchmark	Bloomberg Global Aggregate Credit Index Hedged to GBP
3D Benchmark	Global 100 Corporate Fixed Income Index
Ongoing Charges	0.44%

Source: T. Rowe Price International Ltd, Square Mile Research & Lipper, a Refinitiv company (all rights reserved).

**RI Approaches Employed:**

**Ethical Exclusions**



Avoids industries and company practices that cause harm to people or the planet.

**Responsible Practices**



Considers the operational practices of investee companies and supports 'best practice' in their respective industries, and may encourage them to improve their environmental and social performance.

**Sustainable Solutions**



Seeks to invest in companies that are providing solutions to social and environmental challenges through their core products and services in the belief that this will realise long-term financial benefits.

**Impact**



Clear intent to make a wider positive social or environmental impact, substantiated by investment in companies providing solutions to social and environmental challenges through their core products and services, with evidence provided of the social and environmental impact.

**Engagement**



The fund manager seeks to raise standards on environmental, social and governance issues through dialogue with investee companies; or by participating in collaborative initiatives with other stakeholders.

This global fixed income fund is led by Matt Lawton, with support leveraged from T. Rowe Price's global fundamental research platform for credit and impact analysis. The fund has a dual objective, wherein the manager seeks to invest in issuers that confer a high level of positive impact while delivering superior long-term returns relative to the fund's benchmark. The fund is constructed from an investment universe of global corporate fixed income securities, which is refined using a series of negative and positive screens, alongside conventional credit analysis and investment in labelled bonds. Initially, a negative screen is applied at a group level, which removes those companies that the firm feels generate a harmful impact through their activities. Examples of these include a preclusion on investment in companies that produce alcohol, those engaged in weapons manufacturing, and those that have greater than 5% revenue exposure to fossil fuel extraction and sale.

For the remaining issuers, a three-step investment process is carried out. First is the mapping of issuers to the fund's themes. To be eligible for investment, an issuer must derive more than 50% of its revenue, or be on course to within 10 years, from an activity related to one of the below themes:

- Climate and resource impact, with the sub-themes of reducing greenhouses gases, promoting healthy ecosystems and nurturing circular economies.
- Social equity and quality of life, with the sub-themes of enabling social equity, improving health and enhancing quality of life.
- Sustainable innovation and productivity, with the sub-themes of sustainable technology and building sustainable industry.

The following stage focuses on materiality and intensity of impact analysis, wherein the thematically mapped impact of each company is assessed across five considerations:

1. What
  - What outcome is occurring in the holding period?
  - How important is the outcome to the people (or planet) experiencing them?
2. Who
  - Who experiences the outcome?
  - How underserved are the affected stakeholders in relation to the outcome?
3. How much
  - How much of the outcome is occurring—across scale, depth, and duration?
4. Contribution
  - Would this change, or impact, likely have happened anyway?
5. Risk
  - What is the risk to people and the planet if the impact does not occur as expected?

These two research frameworks form a quasi-positive screen that helps the manager develop an issuer-specific impact thesis, define risks and areas for improvement, and shape key performance indicators (KPIs) against which he can assess improvements and develop his theory of change for all issuers.

Due to this fund's dual objective, the final step is a conventional credit analysis. Analysts will consider credit quality alongside macroeconomic conditions and volatility expectations to determine the return potential of each security. In addition, the team will assess each security through their proprietary Responsible Investing Indicator Model (RIIM), a traffic light-based system that models issuers according to their ESG profile and risk exposure.

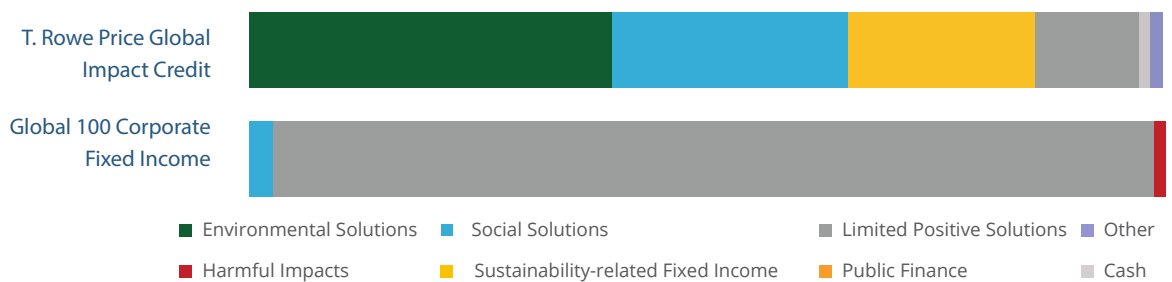
Alongside the thematic approach, the manager will also consider investing in labelled bonds - that is, bonds wherein the proceeds are ringfenced for spending on socially or environmentally beneficial projects - as a tool for further deepening the impact generated by the portfolio's holdings. Bonds such as these will be analysed according to the issuer's operational practices, alignment with existing labelled bond frameworks, use of proceeds, and efficacy of reporting protocols. Impressively, this is the most typical method by which bonds are screened into the portfolio. Portfolio construction is informed by this aggregated, three-step impact and financial analysis research. The manager will consider risk management, the credit cycle, and region and sector exposures when shaping his thematic portfolio of between 75 and 150 issuers.

Post-investment, engagement with issuers is carried out where material ESG risks and controversies are discussed; however, given the fund's best-in-class approach to investing in impact names, the likelihood of intense engagement is somewhat limited. Accordingly, over the course of 2022, 44% of issuers were engaged with on ESG matters. Case studies relating to engagement are limited to just three examples within the fund's impact report, but it is clear that the manager tracks and measures all engagements in line with KPIs developed during the investment process. The impact report also contains a number of useful indicators, including a summary of the investment process, current positioning, a measure of impact outcomes generated by the fund's issuers, rationales for a select number of holdings, theory of change, carbon footprint monitoring, and progress monitoring in respect of impact for the fund's holdings.

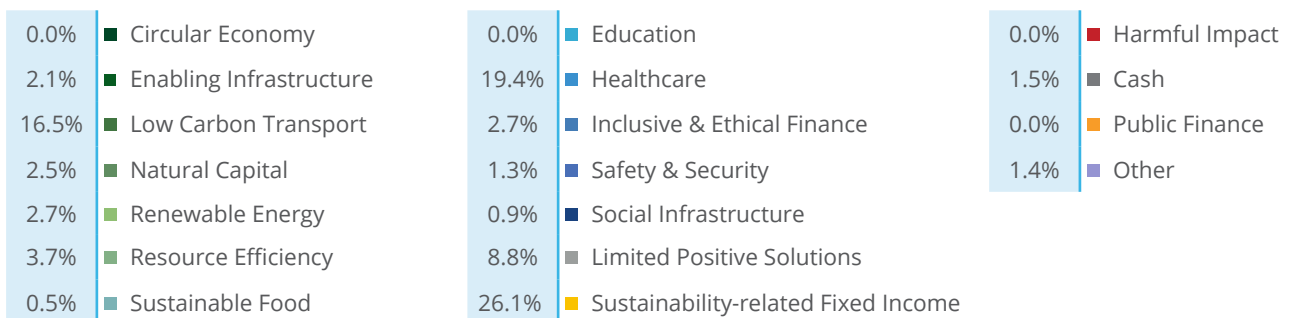
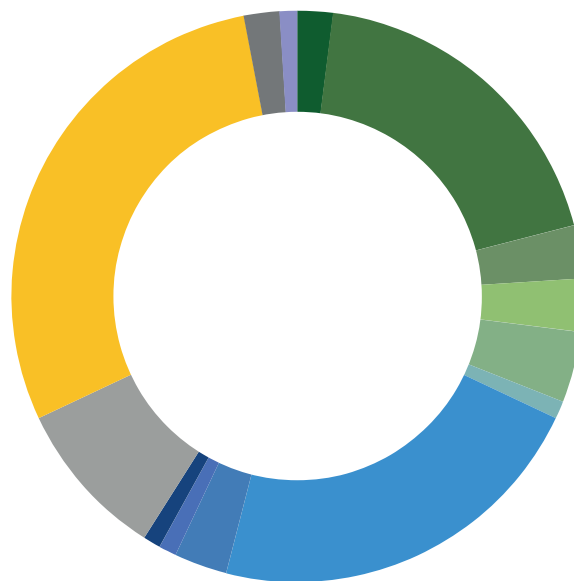
Principally owing to the fund managers investment process targeting an alignment of greater than 50% of a company's revenue to one of three impact themes: Climate and Resource Impact; Social Equity and Quality of Life; and Sustainable Innovation and Productivity, it is unsurprising to identify a c.88% exposure to the 3D themes illustrated below. The two dominant 3D exposures within the portfolio are to Low Carbon Transport (c.17%) and Healthcare (c.19%), which align well with the first two aforementioned themes of climate impact and quality of life.

Securities classified as Low Carbon Transport are typically large corporations that have issued labelled bonds that will use the proceeds to greenify their operations. For example, LeasePlan Corporation, a Dutch vehicle leasing company, has issued a €500 million green bond with the intention of accelerating climate change mitigation by switching to cleaner, low-emission vehicles. Contrastingly, Healthcare-classified securities are all traditional bonds that have been attributed to healthcare-based companies, such as Health Care Service Corporation, an American health insurer, and Hikma Pharmaceuticals, a British non-branded medicine producer in the fields of anti-infectives, cardiovascular diseases, and diabetes.

Making up the bulk of the remaining capital allocation is to Sustainability-related Fixed Income (c.26%), which is a generic 3D category that includes labelled bonds that are unable to be attributed to a specific 3D category. These issuances are, nevertheless, ringfenced around specific environmental and/or social causes, which ensures their positive impact alignment.



Source: T. Rowe Price International Ltd and Refinitiv, Holdings as at 30/09/2023.



Source: T. Rowe Price International Ltd & Square Mile Research, Holdings as at 30/09/2023.

## Controversial Activities Exposure

In addition to the comprehensive positive impact screening process outlined in the RI Strategy section of this report, prospective issuers are also screened against the group's exclusionary screen that is enforced by the RI team. In this screen, issuers within the Bloomberg Global Aggregate Credit Index that are materially involved in the following sectors are deemed to not generate any positive impact, and thus will not be invested in. These exclusions are enforced at varying thresholds, which can be viewed on the T.Rowe website; however, in short, the sectors excluded include: alcohol; gambling; tobacco; thermal coal mining; for-profit prisons; and controversial and conventional weapons, amongst others.

At the time of analysis, nevertheless, our framework identified several flags for the controversial activities of: hazardous chemicals; fossil fuel production and generation; and nuclear power. Although these flags are significant and noteworthy, we are cognisant that these exposures are in full compliance with the fund's screening process.

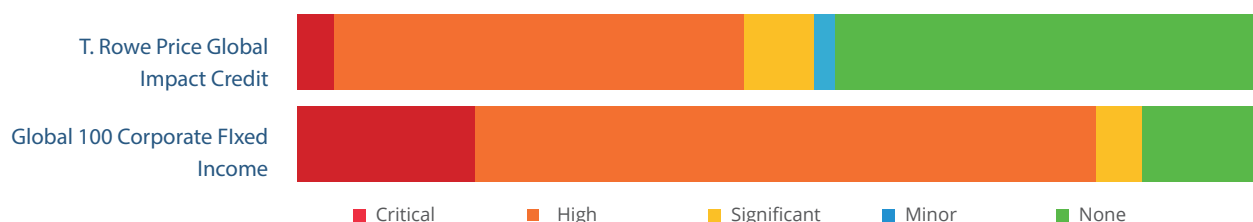
A notable example within the fossil fuel production and generation controversial activities is NextEra Energy, a major American renewable energy company. NextEra is, nonetheless, a representative example of how companies with legacy fossil fuel exposure can be invested in if they possess a demonstrable

pathway to decarbonising their energy mix with substantive reporting and targets. These characteristics are also visible within the investee companies Enel Chile SA and San Diego Gas & Electric. Overall, despite the material exposures to a number of controversial activities, we remain confident in the managers ability to adhere to the fund's exclusionary screen and sustainability objective. Secondly, every security flagged for controversial activity exposure was attributed to a positive impact 3D theme, making these exposures significantly less concerning after review.

## Controversial Practices Exposure

Controversial Practices analysis allows us to assess the strength of the managers analysis towards mitigating ESG risks within a company's operations. If a fund is flagged as having exposure to more serious controversial practices, it indicates that there may be issues with how the companies are being managed. We would anticipate that responsible investment funds would have less exposure to these types of companies. The investment team has achieved this, with the fund having significantly less exposure to critical- and high-level controversies than its 3D benchmark. This highlights that the team's investment process has been effective in enabling the managers to identify, mitigate, and/or avoid any ESG-related risks from an operational practices perspective.

## Controversial Practices Breakdown



Controversial Activities and Practices Data Source: Moody's ESG Solutions.

Source: T. Rowe Price International Ltd & Square Mile Investment Research. Holdings as at 30/09/2023.

## Exclusion Criteria Applied by the Fund Manager\*

Addiction	Animal Welfare	Environment	Fossil Fuels	Human Welfare
Alcohol <input checked="" type="checkbox"/>	Animal Testing <input type="checkbox"/>	Inorganic Fertilisers <input type="checkbox"/> Pesticides <input type="checkbox"/>	Power Producers <input checked="" type="checkbox"/> Exploration & Production <input checked="" type="checkbox"/>	Human Rights (Countries) <input checked="" type="checkbox"/>
Gambling <input checked="" type="checkbox"/>	Animal Products <input type="checkbox"/>	Mining <input checked="" type="checkbox"/> Tropical Forests <input type="checkbox"/>	High Carbon Industries <input checked="" type="checkbox"/> Petrochemicals <input checked="" type="checkbox"/>	Human Rights (Companies) <input checked="" type="checkbox"/>
Tobacco <input checked="" type="checkbox"/>	Meat & Dairy Production <input type="checkbox"/>	Nuclear Power <input type="checkbox"/>	Distribution <input checked="" type="checkbox"/> Service Industries <input checked="" type="checkbox"/>	Military Weapons <input checked="" type="checkbox"/>

Source: T. Rowe Price International Ltd.

\*For full details, please refer to the fund group, who will provide the extent of the exclusions and any revenue thresholds that may apply.



## Micro Engagement (Engagement with Investee Companies)

---

Engagement is considered an integral part of active asset management by T. Rowe Price. At both the group and fund level, we remain confident in the ability of the fund to engage on material ESG issues. Topics engaged on typically arise through the proprietary ESG analysis outlined in the RI Strategy; however, there may be instances of more thematic engagements, such as on carbon accounting processes.

Within the fund's annual Impact Report, three engagement case studies were outlined that instill confidence in the engagement strategy committed to by the team. AES Corporation, for example, is a major American renewable energy company that was engaged with regarding its carbon transition strategy. As a result of successful engagements between both parties, the team helped guide AES on improving their carbon and impact reporting within their bond report, ultimately improving the team's conviction in the green bond issuance.

## Macro Engagement (Advocacy)

---

T. Rowe Price is a prominent player within the global investment management sector and often uses its wide array of skillsets and knowledge to leverage change within responsible investing. The firm is a member, and in some cases a founder, of important responsible investing initiatives, such as the Global Impact Investing Network, Platform for Biodiversity Accounting Financials, Carbon Disclosure Project, and Global Reporting Initiative, amongst others. While we recognise that T. Rowe Price is growing in its ability to lead change at both a regional and global scale within responsible investing, we do believe that, at the time of writing, its efforts are more collaborative than leading, hence justifying the score of 4 out of 5 within the Lead Change element of this report.

## Voting

---

Voting is not applicable within this fixed income strategy; however, within this fund's sister strategy that focuses on equity investments, T. Rowe Price aims to vote on all shareholder and management initiatives through its third-party proxy voting service, Institutional Shareholder Services (ISS).

## Affiliated Memberships and Initiatives

---

Founding member of the Global Impact Investing Network (GIIN), Signatory of the Institutional Investor Group on Climate Change (IIGCC), Founding member of the Platform for Carbon Accounting Financials (PCAF), the Platform for Biodiversity Accounting Financials (PBAF) and the Platform Living Wage Financials (PLWF), Participant in Eumedion, which represents institutional investors' interests in the field of corporate governance and related sustainability performance, Involved with the Global Reporting Initiative GRI (annual reports of Triodos Bank are fully integrated and report on their alignment to the Sustainable Development Goals at 3 levels), Member of the Association of the Luxembourg Fund Industry ALFI, Signatory of the Carbon Disclosure Project (CDP) - Carbon, water and forestry, Member of the Dutch Fund and Asset Management Association DUFAS, Signatory of the European SRI Transparency Code, Member of Eurosif and several local sustainable investment fora including VBDO (Netherlands), UKSIF (UK), SpainSIF (Spain) and FNG (Germany), Member of Social Performance Task Force (SPTF)

## Important Information

This Fund Profile is for the use of professional advisers and other regulated firms only and should not be relied upon by any other persons. It is published by, and remains the copyright of, Ethical Money Ltd ("EM"), which operates under the trading name 3D Investing. The Fund Profile is commissioned by the Fund Manager but all editorial rights remain with Ethical Money. EM makes no warranties or representations regarding the accuracy or completeness of the information contained herein. This information represents the views and forecasts of EM at the date of issue but may be subject to change without reference or notification to you. EM does not offer investment advice or make recommendations regarding investments and nothing in this Fund Profile shall be deemed to constitute financial or investment advice in any way and shall not constitute a regulated activity for the purposes of the Financial Services and Markets Act 2000. This Fund Profile shall not constitute or be deemed to constitute an invitation or inducement to any person to engage in investment activity. Should you undertake any investment activity based on information contained herein, you do so entirely at your own risk and EM shall have no liability whatsoever for any loss, damage, costs or expenses incurred or suffered by you as a result. EM does not accept any responsibility for errors, inaccuracies, omissions, or any inconsistencies herein. Unless indicated, all figures are sourced from Lipper, a Refinitiv company, all rights reserved. Past performance is not a guide to future returns.