

# 3D Fund Profile:

## T. Rowe Price Global Impact Equity

November 2023



3D Rating:

3D Fund Classification: **Impact**

The manager of 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 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, Hari Balkrishna, believes generate positive environmental and/or social impact. As a consequence of the fund's five-dimensions materiality and impact assessment, and a comprehensive group-level exclusionary screen, we believe that the investment team has achieved this sustainable objective. The connection between selected companies and United Nations Sustainable Development Goals (UN SDGs) is clear. Furthermore, the manager achieved high 3D solutions exposure and minimal controversial activity weaknesses. The reporting element of this strategy is equally impressive, with the annual Impact Report providing extensive impact outcomes, KPIs, carbon reporting, and engagement success.



### 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.

### Key Facts as at 30/09/2023

Manager	Hari Balkrishna
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 growth in the value of its investments over the long term (a minimum of 5 years).
Launch Date	10/12/2021
Structure	OEIC
ISIN Code	GB00BMHRSM51
Currency	GBP
Size	£1.8m
Sector	IA Global
The Fund's Official Benchmark	MSCI All Country World Index Net
3D Benchmark	Global 100 Equity Index
Number of Holdings	64
Ongoing Charges	0.79%

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

This fund is run by Hari Balkrishna, who is supported by four other members of the Global Equity Impact team. The strategy has a dual objective, wherein the portfolio manager seeks to invest in companies that confer a high level of positive impact while delivering superior long-term returns relative to the fund's benchmark.

The investment process is structured in three layers that embed clear principles of materiality and measurability: first, fundamental and responsible investment research incorporates ESG factors into the analysis; second, T Rowe Price's proprietary Responsible Investing Indicator Model (RIIM) covers approximately 15,000 enterprises and assists the investment team in improving its understanding of companies' characteristics and how they interact when aggregating stocks in a portfolio; and third, the portfolio manager selects stocks checking ESG considerations one more time, understanding the investment theses, ratings, price targets, suggested engagements, position sizing and proxy voting recommendations. Furthermore, a negative screen is used to exclude businesses involved in adult entertainment, alcohol, controversial weapons, for-profit prisons, fossil fuels, gambling, tobacco, and violations of the UN Global Compact.

Selected firms are linked to at least one UN SDG in order to make the fund's impact plan evident to clients. The investment team analyses business activities, and firms must fulfil at least one of the following inclusion requirements to be considered:

- (i) The majority of current revenues or profits are linked to at least one impact sub-pillar;
- (ii) The majority of projected revenues or profits in the next ten years are linked to at least one impact sub-pillar;
- (iii) best-in-class response to impact situations, such as diversity or clean energy leadership;
- (iv) unique impact situations, such as COVID vaccine development and treatment.

The UN SDGs have the following selected sub-pillars: lowering greenhouse gases, fostering health ecosystems, nurturing circular economies, enabling social fairness, increasing health, boosting quality of life, sustainable technologies, and developing sustainable industry and infrastructure.

Along with analysing a company's alignment with impact themes and sub-pillars, the investment team use the Five Dimensions of Impact methodology to assess a company's overall potential to produce impact. The five dimensions are as follows:

- a) What is the impact goal?
- b) Who experiences the outcome?
- c) How much of the outcome is occurring (scale, depth, and duration)?
- d) Would this change likely have happened anyway?
- e) 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 a company-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 companies.

Post-investment, engagement with investees 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 the last two years, 72% of the portfolio's holdings were engaged with on ESG matters.

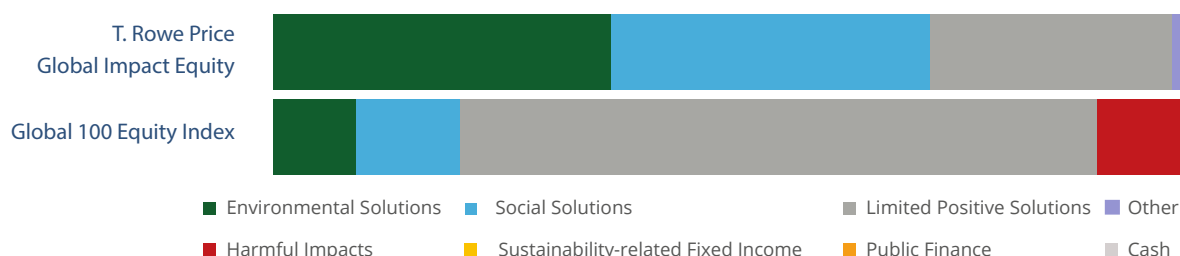
Case studies relating to engagements are limited to just two examples within the fund's impact report, but it is clear that the manager tracks and measures all engagements in line with KPIs developed during the investment process. The impact report also contains a number of useful indicators, including a summary of the investment process, current positioning, a measure of impact outcomes generated by the fund's holdings, rationales for a select number of holdings, a theory of change, carbon footprint monitoring, and progress monitoring.

Owing to the strategy's comprehensive impact materiality assessment, the fund achieves an exposure of c.70% to companies that 3D classifies as offering solutions to environmental and/or social challenges. The aforementioned three high-level sustainability themes—climate & resource impact, social equity & quality of life, and sustainable innovation & productivity—each make up significant allocations within the portfolio.

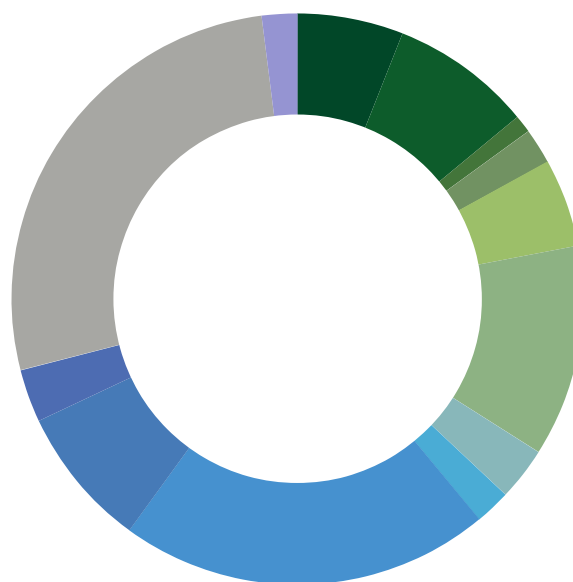
If we take climate & resource impact, for instance, we can see that the 3D themes of Resource Efficiency (c.12%), Circular Economy (c.6%) and Renewable Energy (c.5%) are all prominent within the portfolio. Investee companies mapped to these themes include Badger Meter Inc, an American smart water metering company specialising in efficient flow measurement and water quality, and Monolithic Power Systems Inc, an American manufacturer of energy efficient power management solutions for industrial and commercial applications.

Making up c.33% of the portfolio is what we define as Social Solutions, which includes prominent themes such as Healthcare (c.21%) and Inclusive & Ethical Finance (c.8%). This strategy has several sub-pillar impact activities that 3D believes strongly align to the analysis identified by our own 3D framework. The financial inclusion activity, for example, can be observed within the investee companies AIA Group Ltd., a large pan-Asian life insurance company, and OneMain Finance Corp., an American financial services company delivering responsible credit and financing for non-prime customers.

There was also a significant allocation to companies classified as Limited Positive Solutions (c.28%), which includes companies that confer neither a positive nor harmful impact. However, we recognise that the manager's strategy also allows investments into companies that are on course to derive greater than 50% of their revenue from solutions-based activities, which helps to explain this allocation to Limited Positive Solutions.



Source: T. Rowe Price International Ltd and Refinitiv, Holdings as at 30/06/2023.



5.9%	■ Circular Economy
7.8%	■ Enabling Infrastructure
0.5%	■ Low Carbon Transport
2.4%	■ Natural Capital
5.0%	■ Renewable Energy
11.8%	■ Resource Efficiency
3.3%	■ Sustainable Food

1.4%	■ Education
21.4%	■ Healthcare
7.8%	■ Inclusive & Ethical Finance
2.6%	■ Safety & Security
0.0%	■ Social Infrastructure
27.7%	■ Limited Positive Solutions
0.0%	■ Sustainability-related Fixed Income

0.0%	■ Harmful Impact
0.0%	■ Cash
0.0%	■ Public Finance
2.4%	■ Other

Source: T. Rowe Price International Ltd & Square Mile Research, Holdings as at 30/06/2023.

## Controversial Activities Exposure

The manager of this fund, alongside the diligent positive thematic screen outlined in the RI Strategy section of the report, also applies a comprehensive exclusionary screen that is enforced across the entirety of T.Rowe Price. This impact exclusion screen excludes investments in specific corporate or sovereign securities if they are deemed to be in contradiction of the firm's impact philosophy. Activities currently deemed controversial include, but are not limited to: adult entertainment; alcohol; controversial weapons; for-profit prisons; companies classified as working within the oil and gas sector as defined by the GICS and/or BICS framework; and tobacco. Full information regarding T.Rowe Price's exclusion screen can be found on its website, which includes the specific revenue thresholds pertaining to each activity.

Pleasingly, our analysis has identified only one instance of major controversial activity exposure within the entire portfolio. Thermo Fisher Scientific, an American biotechnology company that supplies scientific instrumentation and reagents to the healthcare sector, was flagged for exposure to hazardous chemicals due to the supply of chemicals used in pesticides and herbicides. Albeit a small portion of the company's revenue is derived from this activity, it is still considered material under the 3D framework. At the time of analysis, another investee company, Ball Corp., a recyclable aluminium can manufacturer, was flagged for military weapons exposure due to its Ball Aerospace segment providing antennas and satellite systems

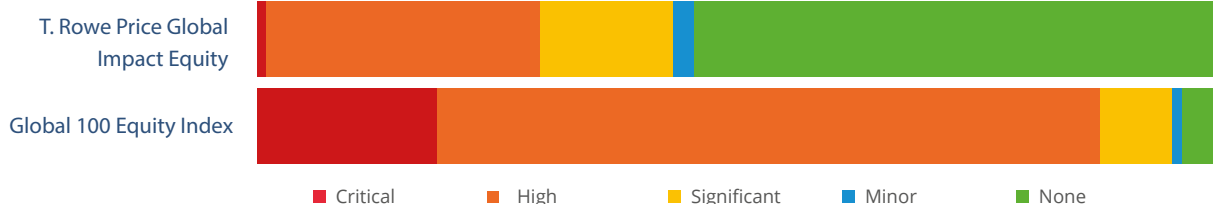
for military purposes. However, upon further research, we are aware that this arm of Ball Corp. has been sold to a British military weapons company, hence the removal of this flag.

There were several companies flagged for involvement in the controversial activity of animal testing; however, each company flagged is legally required to test its products on animals. Our 3D framework is cognisant that companies operating within the healthcare and/or chemical solutions market are often legally bound to test their products on animals, which has been reflected in the fund's Avoid Harm score.

## Controversial Practices Exposure

Controversial Practices analysis allows us to assess the strength of the fund manager's 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 manager of this fund has mostly achieved this, with the fund being only 45% exposed to controversial practices and only 1% of these being critical. At the time of analysis, 28% of its associated controversial practices are considered high-severity, though this is still markedly better than the index. This may reflect the incorporation of the Responsible Investor Indicator Model, which, in part, analyses a company's practices.

## 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 30/06/2023.

## 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"/>	Power Producers <input checked="" type="checkbox"/>	Human Rights (Countries) <input checked="" type="checkbox"/>
Gambling <input checked="" type="checkbox"/>	Animal Products <input type="checkbox"/>	Pesticides <input type="checkbox"/>	Exploration & Production <input checked="" type="checkbox"/>	Human Rights (Companies) <input checked="" type="checkbox"/>
Tobacco <input checked="" type="checkbox"/>	Meat & Dairy Production <input type="checkbox"/>	Mining <input checked="" type="checkbox"/>	High Carbon Industries <input checked="" type="checkbox"/>	Military Weapons <input checked="" type="checkbox"/>
		Tropical Forests <input type="checkbox"/>	Petrochemicals <input checked="" type="checkbox"/>	
		Nuclear Power <input type="checkbox"/>	Distribution <input checked="" type="checkbox"/>	
			Service Industries <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.

The T.Rowe Price Global Impact Equity team issues a comprehensive annual impact report, which, to the benefit of the document's readers, provides insight into the engagement strategy and success at a fund level. Additionally, the report provides in-depth engagement studies that instill confidence in the team's ability to effectively engage on material ESG issues. Thermo Fisher, for instance, which is one of the highlighted stocks earlier in the report, was engaged with on its R&D expense reporting metrics. R&D expenditure is critical to the success, impact, and longevity of healthcare-oriented companies, which is why T. Rowe Price decided to engage in improving the company's reporting processes and metrics. Pleasingly, the engagement was well received by the company, and its subsequent company ESG report included the suggested improvements, ultimately to the benefit of all involved.

## Voting

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)

## 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 the firm 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.

## Important Information

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