AUSTRALIAN UNIT TRUST

T. Rowe Price Dynamic Global Bond Fund – ESG Report

Providing transparency on Environment, Social and Governance aspects of the Fund

As at 31 March 2024

ESG INTEGRATION APPROACH

- The Dynamic Global Bond Strategy uses environmental, social, and governance (ESG) integration as part of its investment process. By incorporating ESG considerations into our investment process, we seek to understand the range of ESG risks, together with many other investment criteria, to better position ourselves in order to deliver consistent, strong long-term returns for our clients.
- The process of ESG integration takes place on two levels: first, with our research analysts as they incorporate environmental, social and governance factors into issuer 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 proactively 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 over 15,000 companies and pulls from data sets that are not in the wheelhouse of traditional financial analysis. These data sets include:
  - ESG performance data (e.g., number of accidents, carbon emissions, strength of whistle-blower programs, etc.);
  - ESG targets (e.g., plans to reduce carbon emissions, increase diversity, etc.)
  - ESG incidents and controversies (e.g., environmental fines paid, local community controversies/protests against a company, etc.)
- The portfolio constructed on the basis of identifying the best risk/reward opportunities from the global fixed income universe. Key to this is proprietary bottom-up research that includes the assessment of ESG factors by our analysts who work in collaboration with the dedicated ESG specialist team. We complement this approach with regular screening of the portfolio using T. Rowe Price's proprietary RIIM analysis. This helps us understand the ESG characteristics of the portfolio and makes us aware of any elevated exposures to specific ESG factors from a risk management perspective.

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, encouraging 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.

HDFC Bank (4th Quarter 2023 Engagement)

Focus	Environment, Social
Company Description	HDFC Bank is a private bank in India.
Engagement Objective	We engaged with the bank to discuss its financial inclusion initiatives and to provide recommendations on its climate strategy.
Participants	From HDFC Bank: Head of ESG; Investor Relations representatives From T. Rowe Price: Portfolio Manager; Investment Analyst; Responsible Investing Analyst
Engagement Outcome	On the topic of financial inclusion, the bank walked through Parivartan, its main corporate social responsibility (CSR) initiative which provides support across five areas (rural development, promotion of education, skill development, health care, and financial literacy) and has impacted 99.31 million people to date. Regulation requires companies distribute 2% of profits into CSR efforts and HDFC Bank's CSR budget is among the largest in India, given the profitability of the bank. The bank is also mandated to complete a social impact assessment on every project, which makes it easier to measure the target population and associated impact key performance indicators (KPIs). We discussed the feasibility for HDFC Bank to set forward-looking targets on its financial inclusion initiatives (e.g. number of lives impacted) but the bank is prioritizing branch openings in rural/semi-rural areas in the short/medium term. It is looking to reach 13,000-14,000 branches, up from 8,000 today, and expect most of the new branches to be in rural and semi-rural areas as this is where it sees the largest growth in customers. In terms of integration of ESG risks into lending criteria, the bank revised its ESG lending framework in FY23, requiring all loans above Rs (rupees) 0.5 billion (previously Rs 1 billion) to undertake an environmental and social assessment, alongside a new dedicated climate assessment. The bank explained that it has integrated these assessments into its credit appetite framework, and we recommended the bank provide additional disclosure on how these assessments impact the bank's willingness to lend to a client. We also discussed financed emissions. The bank falls behind global and regional peers in not measuring or reporting on these. The bank explained it has assessed the emissions from 20% of its wholesale customers (who report their carbon emissions) through a pilot study and is working with a third party to estimate the remaining financed emissions. The bank has also worked with a consulting firm to measure the physical climate risks (flood, drought, cyclones, landslides) across is balance sheet. We recommended the bank provide additional disclosure in future reporting on its initial efforts at measuring financed emissions, alongside its physical climate risk assessment. The bank explained it remains years away before it will consider setting financed emission reduction targets. On the area of sustainable finance, the bank received approval for its sustainable financing framework in October 2023 and expects to publish its framework in the first quarter of 2024 ahead of an inaugural ESG bond. We offered to provide investor feedback and share best practice guidance on the framework ahead of publication. The bank indicated that its social asset portfolio remains much larger than its green portfolio and we expect the bank may come to market initially with a social bond, targeting lending to small and medium-sized enterprises (SMEs) and access to finance.

Citigroup (4th Quarter 2023 Engagement)

Focus	Environment, Governance
Company Description	Citigroup is a U.S. financial services company.
Engagement Objective	We engaged with Citigroup to discuss various ESG issues (i.e., climate strategy, ESG bonds, the regulatory environment, and a racial equity audit).
Participants	From Citigroup: Chief Sustainability Officer; Managing Director and Global Head, Citi Environmental and Social Risk Management; Global Head of Total Rewards, Human Resources; Chief Diversity, Equity and Inclusion Officer; Managing Director, Deputy Corporate Secretary and General Counsel; Associate General Counsel From T. Rowe Price: Head of Corporate Governance; Responsible Investing Analyst
Engagement Outcome	We engaged with Citigroup to discuss various topics related to the environment (i.e., climate strategy and the U.S. regulatory environment) and social (i.e., a recent racial equity audit). Though the bank is broadly in line with its U.S. peers in climate strategy, it lags global best practice in certain aspects, and we used the meeting to provide disclosure recommendations. We also sought to understand how anti-ESG rhetoric in the U.S. has impacted the trajectory of its climate strategy and its appetite for issuing more thematic ESG bonds. Citigroup is in line with its U.S. peers regarding the decarbonization of its loan book but lags global best practice in evaluating the credibility of clients' transition plans in its framework. We suggested that the bank demonstrate how clients' transition plans have evolved over time and highlighted peers demonstrating best practice. Citigroup said it aims to publish interim financed emission reduction targets for additional sectors ahead of its Task force on Climate-related Financial Disclosures (TCFD) report next year. We discussed the bank's stance on measuring facilitated emissions from its capital markets business. Other banks have developed their own methodology after giving up waiting for guidance from the Partnership for Carbon Accounting Financials (PCAF). However, Citigroup indicated its preference to wait for PCAF's guidance, which is 2 years past due. Citigroup said that the current U.S. regulatory environment—which has grown more polarized with increased disclosure requirements and boycotts of financial institutions over their energy policies—has helped the bank "sharpen" its narrative on climate. The bank's involvement in the Net-Zero Banking Alliance (NZBA) has started to impact its client base as Citigroup was recently dropped from a muni underwriting deal in Texas. Nevertheless, management appeared optimistic about its NZBA membership and believes there is value in being a member. Citigroup previously issued a social bond targeting affordable housing, and we expressed investors' preference for ESG bonds targeting a specific theme (e.g., transition, women's empowerment, and diversity, equity, and inclusion). However, the bank said it was unsure if it had sufficient assets on the balance sheet to issue a thematic bond. Citigroup conducted a racial equity audit in 2023 but does not plan to repeat the exercise, saying that it is trying to embed the findings into its business. Our engagement gave us an opportunity to make several disclosure recommendations to Citigroup to bring its climate strategy in line with global best practice. We will monitor for Citigroup to demonstrate how clients' transition plans have evolved over time and to publish financed emission reduction targets for additional sectors.

[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).

ESG RIIM PROFILE

The T. Rowe Price Responsible Investing Indicator Model (RIIM) rates companies, governments and securitized assets in a traffic light system measuring their environmental, social, and governance profile and flagging issuers with elevated risks. For certain types of investments, including, but not limited to, cash, currency positions, and particular types of derivatives, an ESG analysis may not be relevant or possible due to a lack of data. Where ESG considerations are integrated into the investment research process, we may conclude that other attributes of an investment outweigh ESG considerations when making investment decisions.

	Portfolio	
	No. of securities	**% weight**
Green	158	68.0
Orange	56	22.0
Red	1	0.2
Not in scope / not covered	155	5.0
Cash	1	4.7
Total	**371**	**100.0**

● No/few Flags ● Medium Flags ● High Flags

IMPORTANT INFORMATION

Equity Trustees Limited (“Equity Trustees”) (ABN 46 004 031 298 AFSL 240975) is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Stock Exchange (ASX:EQT). Equity Trustees and T. Rowe Price Australia Limited ("TRPAU") (ABN: 13 620 668 895 and AFSL: 503741) are, respectively, the responsible entity and investment manager of the T. Rowe Price Australian Unit Trusts. Available in Australia for Wholesale Clients only and in New Zealand for Wholesale Investors only.

A Target Market Determination for each T. Rowe Price Australian Unit Trust (or class of units in a Trust) is available here (www.eqt.com.au/insto [eqt.com.au]). A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who the financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where Equity Trustees Limited, the responsible entity of the T. Rowe Price Australian Unit Trusts may need to review the Target Market Determination for the financial product.

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