



## AUSTRALIAN UNIT TRUST

# T. Rowe Price Australian Equity Fund – ESG Report

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

As of 30 June 2023

## ESG INTEGRATION APPROACH

- The T. Rowe Price Australian Equity Fund uses environmental, social, and governance (ESG) integration as part of its investment process. This means incorporating ESG 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 around 15,000 companies and pulls from data sources that help supplement the fundamental research from our financial analysts. 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.)
- Fundamental research is at the core of our investment process where we aim to identify high-quality growth opportunities. ESG is integrated into our research, where we are looking to identify key issues that may have material implications for shareholder returns, including these factors into our assumptions and valuation. Our proprietary RIIM analysis allows for a systematic evaluation of these ESG factors both at the company and the portfolio level, and our in-house ESG team presents a bespoke analysis of the Australia Equity Strategy to the portfolio manager on a regular basis to highlight any unknown risks or unintended negative exposures.

## 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.

**BHP (1<sup>st</sup> Quarter 2023 Engagement)**

<b>Focus</b>	Environment
<b>Company Description</b>	BHP is a global metals and mining company with operations in Australia, Chile, and North America.
<b>Engagement Objective</b>	We engaged with BHP to inform our understanding of the firm's participation in indirect climate lobbying.
<b>Participants</b>	From BHP: Group Climate and Sustainability Officer, Vice President – ESG From T. Rowe Price: Head of Governance, EMEA & APAC, Responsible Investing Analyst
<b>Engagement Outcome</b>	<p>We engaged with BHP to inform our voting on the topic of indirect climate lobbying at the firm's future annual general meetings (AGMs)</p> <p>BHP received a shareholder resolution at the 2022 AGM asking the company to proactively advocate for Australian policy settings that are consistent with the Paris Agreement's objective of limiting global warming to 1.5 degrees Celsius. We did not support the resolution as we felt the way it was drafted made it unsupportable, but we recognize similar resolutions are likely to be received at future meetings.</p> <p>BHP's 2023 industry association review has been both an opportunity to assess the trade associations which BHP judges to be materially in scope against its 2020 global climate policy standards, and to produce a new version of the standards, for release later in 2023. The 2022 review was due to complete in October 2022 but has been paused to receive investor feedback and will now complete in February 2023.</p> <p>The company determines that participation in indirect lobbying is material if it pays over AUD 100,000 in fees, or there is significant stakeholder interest in the organization and its advocacy. The second test is subjective but evaluates whether investors have raised the trade association with BHP, whether the association has been involved in filing past shareholder resolutions, or if it is featured in the InfluenceMap ranking of 150 trade associations (InfluenceMap maintains a global system for tracking, assessing, and scoring companies on their engagement with climate change policy against Paris-aligned benchmarks).</p> <p>Data collection for the 2022 industry association review was undertaken by KPMG. BHP then reviewed the assessment to review any areas of misalignment. They also asked the Australasian Centre for Corporate Responsibility (ACCR), the organization which filed the abovementioned shareholder resolution at the 2022 AGM, for feedback on its methodology.</p> <p>ACCR made three suggestions, which have been incorporated: (1) trade associations should no longer be assigned a pass/fail mark but should be graded on a continuum, from alignment to non-material misalignment to material misalignment, (2) previously BHP only disclosed when it found misalignment but will now disclose areas of alignment too. This will be judged against the trade associations' policy statements but also what they say in the press, and (3) where InfluenceMap have relevant data points, they will be used within the assessment.</p> <p>The industry review only covers indirect lobbying. For the BHP 2023 annual report, the company is looking at whether it can say more about its direct climate advocacy examples.</p> <p>The meeting informed our understanding of BHP's approach to indirect climate lobbying, which will be reflected in our voting decision at the firm's future AGMs. It also allowed us to impart our views on best practices in this area.</p>

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the Fund, and no assumption should be made that the securities identified and discussed were or will be profitable. T. Rowe Price may have ongoing business and/or client relationships with the companies mentioned in this report.

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