



AUSTRALIAN UNIT TRUST

T. Rowe Price Australian Equity Fund – ESG Report

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

As of 31 March 2022

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.

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Wesfarmers (4th Quarter 2021 Engagement)

Focus	Social
Company Description	Wesfarmers is engaged in various business operations, such as supermarkets, hotels and convenience stores; home improvement; office supplies, and an industrials division.
Engagement Objective	We engaged with Wesfarmers as part of a regular dialogue on ESG matters.
Participants	From Wesfarmers: Investor Relations Representative, Sustainability Representative From T. Rowe Price: Investment Analyst, Responsible Investing Analyst
Engagement Outcome	<p>The purpose of our engagement was to gain a better understanding of Wesfarmers' management of modern slavery risks in its supply chain. Given the scale and geographic exposure of the company's supply chain, modern slavery risks are an inevitable challenge that it faces.</p> <p>Wesfarmers has published a modern slavery statement that is verified by third parties, and is transparent on audit results, boosting its accountability. Modern slavery issues are overseen by the Board. Wesfarmers has exceptional levels of transparency on modern audits and performance. For retailers Target and Kmart, the company has disclosed all tier one suppliers and aims to publish tier two suppliers by July 2022.</p> <p>The company outlined where it believes the most valuable contributions to managing modern slavery risk come from: (1) Large local teams in key supply markets who are accountable for continued ethical sourcing and auditing oversight, and ensured diligent supply chain monitoring during the coronavirus pandemic; (2) Strict supplier due diligence process—a rigorous selection of suppliers that align with Wesfarmers' values, and (3) Extensive supplier training.</p> <p>Wesfarmers outlined some examples of how the remediation process works in practice. All issues found (ranging from minor to critical) are remediated. When it comes to child labor, the company ensures that the child is registered in and shown to be attending school. Some safety issues can be remediated at the time of audit (for example, ensuring fire exit doors are unlocked). Record keeping is difficult to correct for but is critical in order to monitor working hours. The general approach is to give the supplier three chances to improve before escalating the issue. The only issue not remediated is attempted bribery of an auditor.</p> <p>The company adopts a risk-based approach to audit prioritization. All own-brand suppliers undergo audits. Beyond this, suppliers are selected after being identified as high risk, for example, due to product type or past performance. Domestic modern slavery risks lie in cleaning services and Bunnings' green-life suppliers.</p> <p>The company is heavily involved in political, regulator, non-governmental organization, and competitor engagement. Wesfarmers explained that competitor engagement, sharing of best practices, and information on supplier audits can be valuable and efficient. For example, Wesfarmers leverages the audit results of key competitors to enable a fuller picture of its supply chain.</p> <p>We view Wesfarmers as a leader when it comes to modern slavery management, tracking, remediation and transparency, and believe that the company is working to minimize these risks. The engagement informed our investment research.</p>

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