



AUSTRALIAN UNIT TRUST

## T. Rowe Price Global High Income Fund – ESG Report

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

*As of 30 September 2024*

### ESG INTEGRATION APPROACH

- Our central mission is to help our clients reach their long-term financial goals and we believe that incorporating environmental, social and governance (ESG) factors into our investment process alongside financials, valuation, macro-economics and other factors is consistent with that objective. 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 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.)
- Our T. Rowe Price Global High Income Fund seeks to generate alpha by focusing on proprietary, bottom up research to identifying companies offering long-term performance potential. The Global High Income investment team examines each potential investment; each holding; and the entire portfolio with an approach deeply rooted in fundamental analysis along with a macro and industry top-down view. These processes naturally incorporate an analysis of each company's environmental, social, and governance factors. We find that this process tends to yield an ESG-friendly set of companies. However, our Global High Income investment team collaborates closely with our ESG specialists to augment their work. We also screen the portfolio using T. Rowe Price's proprietary RIIM analysis at regular intervals. This helps us understand the ESG characteristics of the portfolio and makes us aware of any exposures to specific ESG factors or how these ESG factors may impact a company's business operations and market performance.

### 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.

## OneMain Holdings (1<sup>st</sup> Quarter 2024 Engagement)

<b>Focus</b>	Governance
<b>Company Description</b>	OneMain Holdings (OneMain) is a financial services company that helps customers meet their financial needs, including debt consolidation, home and auto repair, medical procedures, and other major expenses.
<b>Engagement Objective</b>	Our engagement with OneMain focused on governance transition from a controlled to a free-float capital structure and fair lending practices.
<b>Participants</b>	<p>From OneMain: Investor Relations Representatives; Chief Legal Officer; Chief Financial Officer; Associate General Counsel</p> <p>From T. Rowe Price Associates, Inc: Head of Corporate Governance</p>
<b>Engagement Outcome</b>	<p>We engaged with OneMain on its governance changes. The company had its initial public offering (IPO) in 2013, but its shares were only fully distributed by private equity (PE) sponsors in 2022. Since that time, OneMain has taken actions to bring its disclosure and governance practices up to contemporary standards. The company has initiated a process to drop its takeover provisions, elect all directors annually, improve Board diversity, and get started on ESG reporting.</p> <p>There is one remaining member of the Board under the original shareholders' agreement. Aneek Mamik represents Varde and is not an independent director. He tends to vote Varde shares against the recommendation of the OneMain Board because he concludes that it is in his fund's interests to maintain the protections OneMain has had in place since its IPO. This dynamic may end up extending the time it will take to upgrade OneMain's governance profile.</p> <p>We discussed traditional concerns about non-prime and subprime lending companies and outcomes for customers. OneMain has taken multiple actions to differentiate itself in this regard. The company's mission is focused on fair lending practices, and it subjects its loans to voluntary caps and other safeguards. For example, if customers make loan payments on time for six months in a row, their annual percentage rate is lowered. In addition, financial literacy programming is incorporated into its interactions with customers.</p> <p>We also discussed the company's settlement with the Consumer Financial Protection Bureau in 2023, and the regulator's positive commentary around these safeguards.</p> <p>Finally, we discussed what to expect in the upcoming proxy vote. The company will not have any unusual items to be voted, but it drew our attention to the transition in its compensation program. As OneMain Holdings migrates away from a PE-oriented approach to incentives toward a mainstream approach, we are likely to see different, overlapping types of awards (i.e., the company is phasing out large, cliff-vesting equity awards and phasing in smaller, annual, performance-vesting shares). This will result in some double-counting in the short term, and the chief executive officer's reported pay will appear outsized.</p> <p>Our engagement with OneMain allowed us to provide feedback on governance changes.</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.

## Ford Otomotiv Sanayi (2<sup>nd</sup> Quarter 2024 Engagement)

<b>Focus</b>	Environment, Social
<b>Company Description</b>	Ford Otomotiv Sanayi (FROTO) is a commercial vehicle manufacturing joint venture between Ford Motor Co. and Koç Group, a Turkish industrial and services group.
<b>Engagement Objective</b>	We engaged with FROTO to provide feedback on its electric vehicle (EV) strategy and sustainable finance plans.
<b>Participants</b>	From FROTO: Head of Investor Relations; Sustainability Leader From T. Rowe Price Associates, Inc: Investment Analyst; Responsible Investing Analyst
<b>Engagement Outcome</b>	<p>We engaged with FROTO to offer feedback on its EV strategy and sustainable finance plans and to verify its exposure to carbon dioxide emissions regulations in Europe. The company is one of Ford's commercial and passenger vehicle makers for the European market.</p> <p>Ford announced plans in early 2024 to roll back its electrification strategy in the U.S. due to lower EV demand and higher adoption of hybrids. However, this had no impact on the EV strategy for FROTO, which is seeing demand from several logistics operators that have committed to electrifying their fleets. As a result, FROTO kept its EV targets unchanged. The company has backed up its strategy with a EUR 2 billion investment plan and manufacturing plants that can shift production across different vehicle types (i.e., EVs, plug-in hybrid electric vehicles, and internal combustion engine vehicles) depending on demand and regulatory changes.</p> <p>On the sustainable finance front, FROTO issued a debut unlabeled bond in April 2024 and seeks to tap into the ESG-labeled bond market. We noted our preference for green bonds over sustainability-linked bonds and suggested that the EUR 2 billion EV investment plan should accommodate repeat green bond issuance tied to EV projects. We introduced the company to blue bonds, given that one of its sustainability targets is linked to reducing water use. In the near term, we will reengage with FROTO to offer more feedback on ESG-labeled bonds and impact reporting.</p> <p>Regarding FROTO's exposure to carbon dioxide emissions regulations, the company contributes to Ford's annual carbon dioxide performance within the European Union (EU) by assembling vehicles for the European market. But from a regulatory standpoint, the EU does not consider FROTO to be a separate original equipment manufacturer subject to local carbon dioxide regulations. As a result, the company is not exposed to the risk of fines.</p> <p>The engagement gave us an opportunity to provide feedback on FROTO's EV strategy and sustainable finance plans. It also allowed us to verify the company's exposure to the EU carbon dioxide emissions regulations. In the coming months, we plan to have a follow-up meeting to discuss ESG-labeled bond issuance and impact reporting.</p>

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## 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		Benchmark	
	No. of securities	% weight	No. of securities	% weight
● Green	121	56.3	1,882	57.6
● Orange	58	26.7	629	23.2
● Red	2	1.0	71	2.0
● Not in scope	0	0.0	5	0.5
● Not covered	28	11.4	629	16.7
● Reserves	1	4.5	0	0.0
<b>Total</b>	<b>210</b>	<b>100.0</b>	<b>3,216</b>	<b>100.0</b>

● No/few Flags ● Medium Flags ● High Flags

The benchmark of the Fund is the ICE BofA Global High Yield Index (hedged to AUD).

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Fund Assets, holdings-based analytics (excluding portfolio turnover), and portfolio attribution are calculated using T. Rowe Price's internal Investment Book of Records (IBOR). Due to timing and accounting methodology differences, IBOR data may differ from the Accounting Book of Records (ABOR) data provided by the Fund's accountant.

## IMPORTANT INFORMATION

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The Fund's Target Market Determination is available here <https://www.eqt.com.au/corporates-and-fund-managers/fund-managers/institutional-funds/institutional-fund-manager?f=1e68c659-e0db-4d2f-8a96-c436f3d60971>. It describes who this 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 the Target Market Determination for this financial product may need to be reviewed.

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