



AUSTRALIAN UNIT TRUST

T. Rowe Price Global Impact Equity Fund – ESG Report

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

As of 31 March 2022

ESG INTEGRATION APPROACH

- All our stock selection decisions begin with a clearly defined positive impact thesis, which proactively and systematically integrates environmental, social and governance (ESG) considerations.
- In pursuit of long-term growth of capital, the fund seeks positive environmental or social impact and to outperform the benchmark. We maintain a focus on companies that we believe offer positive impact today and underappreciated impact in the future, together with sustainability and robustness in their future earnings and cash flow growth, fertile industry structure and compelling management quality, and expert capital allocation. Company fundamentals, including the consideration of environmental, social, and governance factors, play a critical role in the stock selection process.
- Credible ESG solutions require investment and we have been building capability in the field of ESG integration and responsible investing for a number of years in order to fully embed ESG within our investment process. Our philosophy is that ESG factors cannot be separate or a tangential part of a traditional investment thesis; they have to be integrated alongside fundamental factors to create the best outcome for clients.
- The process of ESG integration takes place on three levels: first, as our fundamental and responsible investment research analysts incorporate ESG factors into their analysis; second, as we use T. Rowe Price's proprietary Responsible Investing Indicator Model (RIIM) analysis at regular intervals to help us understand the ESG characteristics of single stocks and the aggregate portfolio; and third, as the portfolio manager integrates ESG considerations within the investment thesis and portfolio construction process himself.
- Our ESG specialist teams also 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 around 15,000 companies and pulls from data sets that may not form a part of traditional financial analysis.
- It is important to reiterate that our impact universe is formed through careful screening by our Responsible Investment team to focus our stock picking on material and measurable impact candidates, understanding ESG factors as we form our perspectives. We incorporate our team's forward-looking perspective on positive impact to our quantifiable understanding of the past, in order to understand the future direction of change. Deep research resources are needed to embrace this complex challenge, but we have invested on behalf of our clients.

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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AstraZeneca (1st Quarter 2022 Engagement)

Focus	Environment, Social
Company Description	AstraZeneca is a biopharmaceutical company.
Engagement Objective	We engaged with AstraZeneca to impart our view on impact disclosures and to inform our understanding of the company's net-zero strategy.
Participants	From AstraZeneca: Director, Investor Relations; Vice President, Global Sustainability & Access to Healthcare; Global Head of Environmental Protection From T. Rowe Price: Head of Governance, EMEA and APAC; Responsible Investing Analyst
Engagement Outcome	<p>The purpose of our engagement was to discuss AstraZeneca's net-zero strategy and to impart our views on impact disclosure. AstraZeneca has a target to reach 50 million people (cumulatively) through its Healthy Heart Africa, Young Health, and Healthy Lung programs by 2025. Several peers are increasingly focusing on their social impact in aggregate, disclosing the total number of patients reached across their operations.</p> <p>The company is conducting work internally on its aggregate impact but has been reticent to publish a patient number to date out of caution that these numbers run a fine line between indicating impact and encouraging misalignment in incentives (i.e., quality of treatment matters, not simply the number of patients taking a product). We explained that T. Rowe Price would nevertheless value disclosures—this ultimately still provides the most complete means to assess a pharmaceutical company's impact in line with the United Nations Sustainable Development Goals.</p> <p>In our analysis of AstraZeneca, we identified access to medicine as a potential area where we as investors can contribute to greater impact. In addition to imparting our view for the need to consider access/impact more holistically, we also discussed: (1) tiered pricing—AstraZeneca uses gross national income in helping to set price corridors, (2) intellectual property—the company does not file patents in any low-income/less developed countries (although it does in some broader low- to middle-income country categories), and (3) health care system resilience—the need to consider insurance coverage of products, not just pricing.</p> <p>From October 2021, AstraZeneca has aligned to the Science Based Targets initiative's (SBTi's) new net-zero standard (being the first pharmaceutical company, and one of fewer than 10 companies across all sectors at the time to do so). Since AstraZeneca already set targets that meet best-in-class criteria (short-, medium-, and long-term objectives; credible pathway; and SBTi verified), we focused specifically on the company's execution against its USD 1 billion investment in its "Ambition Zero Carbon" plan. Notionally 50% to 60% of the spend is associated with delivery of clinical studies to reduce emissions associated with inhalers (>10% of total scope 1–3 emissions¹), 5% to 7% associated with the company's AZ Forest commitment, and the balance invested in energy efficiency.</p> <p>The engagement allowed us to share our views of ESG best practices (namely for impact disclosures). It also informed our understanding of AstraZeneca's net-zero strategy and a recent bribery controversy. We provided feedback that a further call on access to medicine (the third pillar of the company's ESG strategy) would be helpful, and the company is planning to host a future event on this topic. We will monitor for additional disclosures surrounding impact and access to health care.</p>

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).

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Oxford Nanopore Technologies (1st Quarter 2022 Engagement)

Focus	Social
Company Description	Oxford Nanopore Technologies (ONT) develops sensing technology that uses nanopores—nano-scale holes embedded in electronics—to perform molecular analyses.
Engagement Objective	We engaged with ONT to request more disclosure around the company’s social impact with the express purpose of being able to quantify this for impact investments across T. Rowe Price.
Participants	From ONT: Chief Executive Officer; Vice President, Operations; Vice President, Product; Head of Manufacturing; Head of Legal; Senior Vice President, Corporate Development and Investor Relations From T. Rowe Price: Portfolio Manager, Investment Analysts
Engagement Outcome	<p>We visited ONT’s labs and production facility and met with senior management. We also discussed the company’s upcoming sustainability report. ONT’s business model has strong social impact underpinned by the company’s core vision to make its sequencing technology as available, affordable, and easy to use as possible.</p> <p>Free equipment and a pay-as-you-go model (consumables) is a key differentiator versus competition and big driver of the “democratization” of sequencing given significantly lower upfront cost. The idea is to have millions of people using the company’s technology, which is possible given its affordability.</p> <p>Some examples of use cases already underway include: (1) Working with the Africa Centres for Disease Control and Prevention on the Africa Pathogen Genomics Initiative; (2) Working with Kenyan authorities to help identify a serious, unidentified pathogen circulating among children; (3) ONT believes it can already compete with a cost of a polymerase chain reaction test for tuberculosis but get all 14 potential cases and mutations for the same price; and (4) Working with a team at Stanford in a study to develop a rapid, whole genome sequencing approach that has already led to a whole genome nanopore sequencing approach to characterize pathogenic variants being developed in record time. Speed is essential for improving prognosis in critically ill patients (the study used ONT’s PromethION 48 device).</p> <p>The company plans to publish its sustainability report in mid-2022. Its focus will be on detailing social impact and the re-use of flow cells to increase product circularity. We offered to speak with ONT separately about the data we would like to see, which management seemed keen to do.</p> <p>The engagement informed our understanding of ONT’s social impact and ESG efforts. The visit and meetings confirmed our view that the company is delivering strong social impact by lowering the cost of sequencing and creating new use cases that are already leading to improved prognosis and patient outcomes.</p> <p>Following the release of the sustainability report, we will look to see if the impact key performance indicators are adequate and, if necessary, will consider reengaging with the company.</p>

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