



AUSTRALIAN UNIT TRUST

T. Rowe Price Global Equity (Hedged) 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 Global Equity (Hedged) Fund fully 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.)
- Our Global Equity (Hedged) Fund applies an active, growth-oriented approach in order to identify companies with the potential for sustainable growth or relative improvement. We look for such opportunities in industries where the outlook over time is becoming more attractive and is conducive to better outcome. As such, our primary emphasis is on company fundamentals, which include the consideration of environmental, social and governance factors. We find that this process tends to yield an ESG-friendly set of companies; however, 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 elevated exposures to specific ESG factors.

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.

Amazon.com (4th Quarter 2021 Engagement)

Focus	Environment, Social
Company Description	Amazon.com operates the leading e-commerce platform and hyperscale public cloud service globally.
Engagement Objective	As part of a regular dialogue on ESG issues, we engaged with Amazon.com on its net-zero target and environmental disclosures, as well as accusations of union-busting activities.
Participants	From Amazon.com: Associate General Counsel, Head of ESG Engagement From T. Rowe Price: Head of Governance; Director of Research, Responsible Investing; Portfolio Manager; Responsible Investing Analysts; Portfolio Specialist
Engagement Outcome	<p>Our objective in discussing the company's net-zero target and environmental disclosure was to follow up on a previous engagement held in September 2020. We had expressed concern over the limited amount of environmental disclosure made by the company, despite the presence of very ambitious climate targets. Since that engagement, Amazon.com has released a new sustainability report, but the level of disclosure did not represent a material improvement, in our view.</p> <p>Amazon.com is in an interesting situation in that it has a very ambitious net-zero target (i.e., to reach net-zero in 2040, 10 years ahead of Paris Agreement-aligned goals); however, the substance behind the target (i.e., scope of emissions included) and path to delivery are not transparent. The company has publicly announced its intention to set a science-based target in 2022 (which would be a very strong indicator of the robustness of its target).</p> <p>However, there are many reasons to believe that Amazon.com is making solid progress on improving its environmental footprint. For example, carbon intensity dropped by 16% in 2020 (an acceleration on the nearly 5% improvement in 2019), renewables increased to 65% of energy use in 2020, and a commitment to reach 100% renewables use remains in place for 2025 (this covers scopes 1 and 2¹).</p> <p>On employee treatment, Amazon.com has been accused of union-busting activities at its Bessemer facility in Alabama. At the time of our engagement, the company did not have any information on the timing of the next unionization revote at the facility. While the company has been heavily criticized in the media for participating in union-busting activities, Amazon.com claimed that many of the incidents cited were unfortunate, but small issues. Part of its learning from this experience is that it has to engage with employees differently, particularly in the era of social distancing (the Bessemer facility was only opened in March 2020). Amazon.com highlighted that employees voted overwhelmingly against unionization at the last vote.</p> <p>In this engagement, we made clear our concerns over the risk of greenwashing claims if Amazon.com does not provide sufficient transparency on its progress to date and path to net zero. We felt that the issue is well understood by the company and expect that it will work to improve disclosure.</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).

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.

Tencent (1st Quarter 2022 Engagement)

Focus	Environment, Social, Governance
Company Description	Tencent is a Chinese internet company. It owns the WeChat messaging app and video game studios.
Engagement Objective	We met with Tencent for a broad discussion on ESG issues.
Participants	From Tencent: Head of ESG Coordination From T. Rowe Price: Equity Portfolio Manager; Head of Governance, EMEA and APAC; Responsible Investing Analyst
Engagement Outcome	<p>The purpose of our engagement with Tencent was to cover a wide range of topics. We discussed the push for stronger emissions reduction strategies and greater transparency in carbon data; “sustainable tech” projects; gamer protections; and policies related to data privacy, fake news, and censorship. We also sought to learn how Tencent manages ESG issues within the company.</p> <p>Tencent is finalizing climate reporting aligned with the Task Force on Climate-Related Financial Disclosures that will include a more credible pathway to reach net zero in scopes 1, 2, and 3.¹ The company hopes to have its carbon reduction goals verified by the Science-Based Targets initiative.</p> <p>Regarding product sustainability, Tencent is exploring various artificial intelligence/tech solutions to address sustainability challenges, e.g., leveraging its WeChat technology to support smaller businesses and help digitize and upgrade certain industries.</p> <p>On the protection of minors, Tencent’s current youth gaming protections exceed government requirements. However, the company is grappling with the industrywide challenge of how to measure and limit the time that young people spend gaming on their parents’ accounts and across multiple providers—something that China’s government wanted gaming companies to resolve.</p> <p>Regarding data privacy, Tencent has a “privacy by design” approach to its apps. The company’s policy on third-party advertising is not to share any raw data, but it does share anonymized profile analytics to enable targeted advertising. Regarding fake news, Tencent works with news companies authorities in China and has developed a range of machine learning tools designed to detect fake news.</p> <p>The company set up an ESG coordination office in 2021 to handle ESG matters.</p> <p>Tencent said its 2022 annual general meeting agenda was still under discussion. T. Rowe Price has consistently voted against the general share issuance and share reissuance authorities, which we consider to be excessive. Tencent responded that it reviewed the level of authorities every year and that it wanted to retain a degree of flexibility and has prudently deployed the authority to date.</p> <p>This engagement informed our investment research and allowed us to impart our views on best practices around ESG topics. We were encouraged that Tencent has dedicated resources to ESG, intends to improve disclosure, and showed commitment to embedding youth gaming protections. We will monitor the company’s progress in expanding its climate reporting and disclosure and other ESG initiatives in the coming months.</p>

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