

Policy on Customer-Oriented Business Conduct

T. Rowe Price Japan, Inc.

Naoyuki Honda, Representative Director, President and CEO

1. Trust of our customers

Thomas Rowe Price, Jr., the founder of T. Rowe Price (“the Company”; including its group companies; the same shall apply hereinafter), said, “If we take care of our clients, they’ll take care of us.” Since our foundation in 1937, this principle remains as our important corporate culture and corporate value and we first and foremost put our clients first. We believe that the firm’s success follows those of our clients and we strive to build long-term, mutually beneficial relationships with them.

Thomas Rowe Price, Jr. also said, “The personnel of this team must be highly conscious of their obligations to clients. They must possess a sincere desire to produce good results and obtain the public’s good will.” Following these words, we have put the interests of clients ahead of our own growth in conformance with the spirit of fiduciary duty, always acting in accordance with what is best for them.

The Company is an independent asset management firm. We do not have any affiliated banks or securities companies within the group and have specialized in providing asset management services since our foundation. The observation that many of the officers such as President, Directors, and Corporate Auditors of asset management firms come from their affiliated banks and securities companies (Agenda and Handouts 1 of the Fourth Meeting of the “Working Group on Financial Markets” of the Financial System Council [2016]) does not apply to the Company. In fact, members of our management committee have been with us for 15 years on average. We believe that such organizational independence has created an environment that fosters the culture of “customer orientation” (Financial Services Agency [2016]: *Strategic Directions and Priorities 2016 - 2017*, p. 11).

2. Concept of fiduciary duty

What is fiduciary duty? It is said to be a duty arising from the relationship of trust (Kazuo Shinomiya [1989]: *Trust Law (New Edition)*, Yuhikaku Publishing, p. 58) that requires fiduciaries to act solely in

the interest of beneficiaries (Kazuo Shinomiya [1965]: *Study of Trusts*

, Yuhikaku Publishing, p. 208). In Japan, fiduciary duty is often translated as “the obligation that should be borne by a trustee based on a trust contract, etc.” (*Report by the Working Group on Financial Markets under the Financial System Council* [2016], p. 2) or “shinnin gimu” (Norio Higuchi [1999]: *Era of Fiduciary – Trust and Contract*, Yuhikaku Publishing, p. 253). However, we chose to use the term “fiduciary duty” (in katakana) in this policy without translation as we strongly hope that the concept of fiduciary duty will be widely established and embedded also in Japan.

Fiduciary duty is different from “mandatary’s duty,” which arises, for example, from an agreement between the mandator and the mandatary under a contract of mandate. This is because a party to a contract is not considered to be required to act solely in the interest of the other party to the contract. While the relationship between a doctor and a patient or between a priest and a penitent is also considered to be based on the “relationship of trust” between them, the obligation of a doctor or priest to his or her patient or penitent is fundamentally different from fiduciary duty (Kazuo Shinomiya [1989]: *Trust Law (New Edition)*, Yuhikaku Publishing, p. 68).

If so, what does “acting solely in the interest of beneficiaries” exactly mean? We believe that a person who has assumed a fiduciary duty is not only obligated to avoid actions that conflict with the interest of beneficiaries, but also obligated to avoid a position in the first place that might give rise to conflicts of interest (Kazuo Shinomiya [1965]: *Study of Trusts*, Yuhikaku Publishing, p. 209). On the other hand, under a normal contractual relationship, a party is not held responsible unless it has actually caused damage to the other party with its action that conflicts with the interest. A person who has assumed a fiduciary duty must avoid a position that may potentially give rise to conflicts of interest (Tamar Frankel [2014]: *Fiduciary Law*, translated by Mitsubishi UFJ Trust and Banking Corporation Fiduciary Law Study Group under the supervision of Masayuki Tamaruya, Koubundou Publishers, p. 111). In this sense, such a person is considered to be under higher obligations than those imposed by a normal contractual relationship.

3. Principles for Customer-Oriented Business Conduct

We fully agree with the principal published by the Financial Services Agency (the Financial System Council, *the Principles for Customer-Oriented Business Conduct* [2017]). Specifically, we promise to continue on a long-term basis to provide excellent investment products and services that can win the trust of clients based on the five principles described below. As stated above, we are proud of our

corporate culture and organizational climate in which customer-oriented principles are deeply embedded. To continue to provide excellent asset management capabilities and strong returns, we uphold these customer-oriented principles as the guiding principles of all our conducts, rather than mere slogans.

1) Conflict of interest management

We painstakingly ensure that we do not put ourselves in a position to actually or potentially give rise to conflicts of interest with the interest of our clients (i.e., a position to undermine the credibility of our firm).

As asset management firms like us generally receive a percentage of assets under management as a fee, an increase in assets under management as a result of successful asset management is a win-win situation for both the asset management firm and the client. On the other hand, there could be an incentive for conflicts of interest in which an asset management firm tries to extract as much assets from its clients as possible to increase the size of its assets under management (Tamar Frankel [2014]: *Fiduciary Law*, translated by Mitsubishi UFJ Trust and Banking Corporation Fiduciary Law Study Group under the supervision of Masayuki Tamaruya, Koubundou Publishers, p. 57). To eliminate the possibility of such a conflict of interest, we have introduced a fee calculation method called “transitional credit,” which ensures that management cost of clients will not be either favorable or unfavorable for them regardless of the size of assets under management.

Similarly, from the perspective of the size of assets under management, there could be a conflict of interest in which an asset management firm places more orders with a securities company that has sold investment trusts of the firm more than others for the reason that it has contributed to the growth of assets under management. We have no possibility of such a conflict of interest because the allocation of orders with securities companies is determined by voting without considering the intention of the investment trust sales team to ensure the best execution of orders for our clients.

With regard to proxy voting, we do not exercise any voting rights related to our ultimate parent company listed on the U.S. NASDAQ market or those related to our group’s non-Japan corporate type investment trusts as exercising of these voting rights may give rise to potential conflicts of interest. As noted above, we are an independent investment management firm specializing in the provision of asset management services. As such, there is no possibility of exercising voting rights in favor of our own corporate business division engaging in lending, transfer agent services, or corporate sales or our own parent financial institution (Agenda and Handouts 1 of the Eighth Meeting of the “Working Group on Financial Markets” of the Financial System Council [2016]). In addition, we do not engage in any proprietary investment in stocks and bonds to eliminate the

possibility of any potential conflicts of interest.

2) Customer-oriented sound product development

In Japan, distributors sometimes act in a manner driven by the needs of the sales side such as encouraging trades for quick replacement of investment to secure fees (Financial Services Agency [2015]: *Financial Monitoring Report*, p. 92). However, it is impossible for these firms to secure a stable customer base if they neglect customer-oriented principles. We will pursue the best interest of our clients by endeavor to provide excellent asset management capabilities and strong returns, while communicating effectively with the sales side.

We will never provide any investment product that is not suitable for the interest of clients even if there is a need for such a product. We believe that this is not only an issue of the sales side, but also a responsibility of an asset management firm that structures investment products. We also believe that the quality of investment products has a significant bearing on our reputation, productivity, profitability, and market position. Our goal is to become a quality leader that creates a situation in which all personnel of the firm can perform their own duties efficiently. The achievement of this goal would create a virtuous cycle in which internal efficiency improvements lead in turn to reduction of costs borne by clients.

3) Fair fees

Fee levels in the U.S., where our head office is based, are lower on average than those in Japan and, in particular, fees on publicly-offered investment trusts are relatively expensive in Japan (Financial Services Agency [2015]: *Financial Monitoring Report*, p. 96). As we apply the same fee schedule to our clients all over the world, we do not raise fees only for investment products offered to Japanese clients.

Realizing the possibility that excessively high sales fees will encourage sales activities that are against the intention of investors, we will strive to maintain a fee schedule that contributes to the stable wealth accumulation by our clients. We will clearly indicate any fees including actual fees, expected fees, and incentive fees regardless of their name and promote the disclosure of them in a manner to facilitate the understanding of our clients (Financial Services Agency [2016]: *Strategic Directions and Priorities 2016 - 2017*, p. 5).

4) Performance of obligation of explanation

The Company proposes investment products that are suitable for each client based on our knowledge of them and our fiduciary duty to them.

If there is any information asymmetry with regard to product characteristics including fees and risks (Financial Services Agency [2016]: *Strategic Directions and Priorities 2016 - 2017*, p. 9),

clients cannot make an optimal investment decision, which would destroy the basis of the principle of investment at one's own responsibility and risk.

We make proactive efforts to improve various explanation materials, striving with ingenuity to ensure fair evaluation of our high-quality products by clients. In particular, we explain the structure, the risk-return relationship, and direct and indirect fees of the funds offered in an easy-to-understand manner. We also explain the goals of specific investment products painstakingly in a manner that is understandable to clients in consideration of the asset status, investment experience, and financial knowledge of them. At the same time, we also disclose the name of the portfolio manager, the year in which he or she was assigned to that position, and the year in which he or she joined the firm.

We also make sure that information on the investment environment is provided by the portfolio manager on a timely basis.

To provide objective and accurate investment performance information, all investment performance data are required to be obtained from a database that is controlled by our internal performance group. In addition, all advertisements are subject to the prior examination and approval of the compliance department.

5) Securing and fostering specialists

We are committed to managing asset growth in a disciplined, consistent manner and will not compromise the integrity of our investment products or our high standards for client service as we grow. An essential element of our plan is to maintain a highly skilled team of professionals through careful recruiting and internal mentoring. We have added investment staff globally and have made significant additions to our client service teams as well. We will continue to seek out top tier investment talent and grow opportunistically to keep pace with the growth of assets and mandates.

We believe our organizational independence enhances our ability to meet client objectives since we have full control over many important factors, such as the rate of organizational growth and compensation of investment professionals.

T. Rowe Price offers an attractive compensation package based on each individual's contributions to the investment team and firm, as well as on investment results. Investment professionals receive a base salary and a performance bonus that can range up to a significant multiple of their base salary.

Senior level employees and investment professionals may be eligible to participate in our Long Term Incentive plan, which offers restricted stock to select employees and directors. Vesting of these stock awards is based on the individual continuing to render service and generally occurs over a five-year graded schedule.

All employees of T. Rowe Price, including portfolio managers, participate in a retirement plan sponsored by T. Rowe Price Group, Inc. In addition, all employees are eligible to purchase T. Rowe Price common stock through an employee stock purchase plan that features a limited corporate matching contribution. Eligibility for and participation in these plans is on the same basis as for all employees. Finally, all vice presidents of T. Rowe Price Group, Inc., including all portfolio managers, receive supplemental medical/hospital reimbursement benefits.

Senior professionals and members of the T. Rowe Price Management Committee conduct annual performance reviews prior to making individual compensation decisions. Key criteria in each individual's assessment are the extent to which a professional has worked effectively alone and within a team and has shared knowledge across the firm. Measures such as investment results, client retention, client service, tenure, and level of responsibilities are also taken into consideration, as appropriate.

Portfolio Managers

Portfolio manager compensation consists primarily of a base salary, a cash bonus, and an equity incentive that usually comes in the form of restricted stock units. Compensation is variable and is determined based on several factors:

1. Investment performance over 1-, 3-, 5-, and 10-year periods. T. Rowe Price evaluates performance in absolute, relative, and risk-adjusted terms. Relative performance and risk-adjusted performance are determined with reference to the appropriate benchmark(s) for the investment product, as well as comparably managed investment strategies of competitive investment management firms.
2. Teamwork. Sharing ideas with other portfolio managers, working effectively with and mentoring our younger analysts, and being a good corporate citizen are important components of our long-term success and are highly valued.

Compensation is viewed with a long-term time horizon — the more consistent a manager's performance over time, the higher the compensation opportunity. Fluctuation in assets under management is not considered a material factor.

Research Analysts

Analyst compensation at T. Rowe Price is closely tied to performance. To better align analysts' interests with those of our clients, annual bonuses and long-term incentives are largely based on:

1. The degree to which managers include their recommendations in the appropriate portfolios.

2. The value added by those holdings.

When we evaluate analysts, we are primarily looking for consistent long-term outperformance. Hence, we focus most closely on their three- and five-year track records.

Traders

Traders receive a base salary and are eligible to receive an annual bonus and equity incentives.

4. Definition of the “customers” in the context of the Principles for Customer-Oriented Business Conduct

Thomas Rowe Price, Jr. also said, “I believe that the role of an asset management firm should be that of a fiduciary. Therefore, we put the interests of clients ahead of our own growth.” As said by him, we owe a fiduciary duty to the clients of our asset management services. However, we also believe that such a contractual asset manager-client relationship is merely a starting point of our fiduciary duty.

In other words, we must note that fiduciary duties may also arise incidentally with third parties with which there is no direct mandate (Kazuo Shinomiya [1989]: *Trust Law (New Edition)*, Yuhikaku Publishing, p. 66). For example, we owe a fiduciary duty also to pension participants and recipients. This is an example of a fiduciary duty owed to substantive (ultimate) beneficiaries.

In the process in which the fiduciary duty to the clients of our asset management services such as pension sponsors is linked all the way to the fiduciary duty to substantive beneficiaries, assets under management function as an agent. Given this linkage, an asset management firm like us is understood, in the first place, to owe a fiduciary duty to the assets under management themselves.

Therefore, we define “customers” in the context of the Principles for Customer-Oriented Business Conduct to include any of (1) direct clients, (2) substantive (ultimate) beneficiaries, and (3) assets under management.

Date established: April 1st, 2018