Introduction

On behalf of T. Rowe Price International Ltd (“T. Rowe Price”) I am pleased to introduce our disclosure against the 2020 version of the U.K. Stewardship Code.

At T. Rowe Price, delivering investment excellence is at the heart of everything we do. We welcome the opportunity to discuss in the following sections how our investment and research processes comply with each of the principles under the Code.

Under principle one we describe how our culture differentiates us and helps drive the investment success we create for our clients. I was pleased to see T. Rowe Price retain its position in the Pensions and Investments list of “Best Places to Work” in 2020. Collaboration and inclusion are at the heart of our way of working and have been central to how we responded to this exceptional year.

The pandemic has left no part of society untouched, and fairness is higher on investors’ agendas than ever before. Within T. Rowe Price we have enhanced the scope of our in-house initiatives to include Diversity, Equity, and Inclusion (DEI). When speaking with companies on pay, we emphasise that decisions where none of the key groups (executives, employees and other stakeholders including shareholders) disproportionately benefit compared to others can expect our support. Whether looking at ourselves or our investment universe, we believe that companies who do not take a sufficiently long-term and balanced perspective ultimately risk the sustainability of their business models.

We hope you enjoy reading about our stewardship activities. Our Governance and Responsible Investing teams can be reached via Engagement@troweprice.com.

Justin Thomson
Chief Investment Officer, International Equity
26 March 2021

This statement of compliance is available on the T. Rowe Price UK Institutional Site and the T. Rowe Price UK Intermediary Site.
Purpose and Governance

Principle 1: Signatories’ purpose, investment beliefs, strategy, and culture enable stewardship that creates longterm value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

“If our clients succeed, our firm will succeed.” Since we were founded in 1937 by Thomas Rowe Price, this principle has guided how we uncover opportunities for our clients.

T. Rowe Price is an investment management firm managing funds and other accounts on behalf of advisory clients around the world. We employ primarily long-term-oriented, actively managed investment strategies. As such, active monitoring of and engagement with our investee companies are fundamental components of our investment processes.

Our global headquarters remain in Baltimore, USA. At the end of 2020 we comprised 7241 investment professionals worldwide in the US, EMEA and Asia-Pacific regions.

At T. Rowe Price, we strive to help our clients reach their long-term financial goals through a thoughtful, disciplined approach to managing investments. Consistent with that mission, we have an obligation to understand the long-term sustainability of a company’s business model and the factors that could cause it to change. In this process, our dedicated, in-house research analysts consider tangible investment factors such as financial information, valuation, and macroeconomics in tandem with intangible investment factors related to the environment, society, and corporate governance.

We believe it is our responsibility as an asset manager to safeguard our clients’ interests through stewardship: active ownership, monitoring, and mutual dialogue with the issuers of the securities we hold in our clients’ portfolios.

Our assets under management (AUM) in equity, fixed income and multi-asset strategies total US$1.47 trillion on December 31, 2020 T. Rowe Price’s fiduciary culture is anchored in the importance of strategic investing, which is driven by rigorous research, critical thinking, prudent risk management and active, independent decision-making. By putting our clients first and focusing on a long-term time horizon, our purpose is to deliver superior performance that will help clients around the world achieve their long-term investment goals.

At T. Rowe Price, our people set us apart. We thrive because our company culture is based on collegiality and diversity. We believe that our culture of collaboration enables us to identify opportunities others might overlook. Our associates’ knowledge, insight, enthusiasm, and creativity are the reason our clients succeed, and our firm excels. In order to attract and retain the highest quality talent, we develop key talent and succession plans, invest in Company diversity and inclusion initiatives, provide opportunities for our associates to learn and grow, provide strong, competitive, and regionally specific benefits and programs that promote the health and wellness of our associates, both personally and financially.

Recognition for our diversity and inclusion initiatives

Our diversity and inclusion initiatives have garnered recognition. We were pleased to be included in the Human Rights Campaign Foundation’s Corporate Equality Index (CEI) for 2020, as one of 686 U.S. businesses who earned the designation of being a “Best Place to Work for LGBTQ Equality.” Top-rated CEI employers took concrete steps to ensure greater equity for LGBTQ workers and their families in the form of comprehensive policies, benefits and practices. The CEI rating criteria have three key pillars:

- Non-discrimination policies across business entities
- Equitable benefits for LGBTQ workers and their families
- Supporting an inclusive culture and corporate social responsibility

1 Data as of 31 December 2020. 102 portfolio managers, 25 associate portfolio managers, 11 regional portfolio managers, 10 sector portfolio managers, 187 investment analysts/credit analysts, 53 quantitative analysts, 16 solutions associates, 64 associate analysts, 39 portfolio specialists/generalists, 22 specialty analysts, 77 traders, 13 trading analysts, 5 data management, 4 economists, 66 portfolio modeling associates, and 30 management associates.
Our goal is to increase our hiring and the retention and development of talent from groups that are underrepresented in asset management, this includes both minorities and women. Pursuant to this goal, each year we establish annual corporate Diversity and Inclusion goals to continue improving our hiring, development, advancement, and retention of diverse talent and our overall diversity representation. At the end of 2020, women comprised 44% of our associates globally. In addition, at the end of 2020, 29% of our U.S. associates were racial and ethnic minorities. Furthermore, we are committed to pay equity for employees doing similar work, regardless of gender, race or ethnicity, and we conduct pay equity analyses on a regular basis and adjust our associates pay accordingly.

Any discussion of workplace culture cannot ignore the impact of the pandemic in 2020. As the threat of COVID-19 began to emerge, we quickly took precautions to protect our associates. In mid-March, almost overnight, 97% of our global associates switched to full-time telework. Our longstanding investment in technology and commitment to business continuity planning helped ensure a seamless transition and the preservation of our highly collaborative work environment, despite the physical distance. Further details on our response can be found in our most recent Sustainability Report.

Workforce engagement during COVID-19
To gauge our associates’ needs during this exceptional period, we conducted a survey of our global workforce in April 2020. Of the 62% who responded:

- 88% were satisfied with the way T. Rowe Price has responded to their needs
- 82% felt that T. Rowe Price is taking a genuine interest in their well-being

Our culture differentiates us and helps drive the investment success we create for our clients. That’s why preserving our culture is a top priority. We do that by attracting and retaining diverse talent and maintaining our focus on development and succession planning.

- **Deep experience** – Our portfolio managers average 17 years’ tenure with us
- **Idea sharing** – Our investment professionals share their insights across asset classes and regions. In our culture, ideas are debated, tested and refined in order to generate the best possible outcomes for clients
- **Thoughtful successions** – Our succession plans are the result of in-depth, formal planning processes. This helps ensure continuity in investment philosophy and style.
T. Rowe Price Earns Two 2020 U.S. Morningstar Awards For Investing Excellence

In June 2020 T. Rowe Price was honoured with the 2020 U.S. Morningstar Exemplary Stewardship Award for the firm, and the 2020 U.S. Morningstar Outstanding Portfolio Manager Award for Jerome Clark.

The Exemplary Stewardship award recognizes the firm that best demonstrates an investor-focused corporate culture and an alignment of interests between investors and the people who control the destiny of the investment strategies, according to Morningstar. Mr. Clark is a portfolio manager in T. Rowe Price’s Multi-Asset Division.

**Morningstar Exemplary Stewardship Award Methodology**

Nominees are asset managers with investment strategies under coverage by Morningstar manager research analysts. To qualify for the award, the firm must have received a Parent pillar rating of “positive,” or, if one or more of its strategies have been rated under the enhanced ratings methodology launched in November 2019, “High.” The Parent pillar rating measures the quality of a firm’s care of investors’ capital. Nominations are made by Morningstar manager research analysts, then narrowed to a list of finalists. The entire analyst team meets to debate the merits of the finalists. Voting commences immediately thereafter and nominees receiving the most votes are the winners.

**Morningstar Outstanding Portfolio Manager Award Methodology**

To be eligible for the Outstanding Portfolio Manager award, managers must run one or more investment strategies that are under Morningstar manager research analyst coverage and the manager’s strategy must currently earn a Morningstar Analyst Rating™ of Gold or Silver for at least one vehicle and/or share class.

Past performance is not a reliable indicator of future performance.


Morningstar’s Manager Research Group consists of various wholly owned subsidiaries of Morningstar, Inc. including, but not limited to, Morningstar Research Services LLC. Analyst Ratings are subjective in nature and should not be used as the sole basis for investment decisions. Analyst Ratings are based on Morningstar’s Manager Research Group’s current expectations about future events and therefore involve unknown risks and uncertainties that may cause such expectations not to occur or to differ significantly from what was expected. Analyst Ratings are not guarantees nor should they viewed as an assessment of a fund’s, CITS’s, or separately managed account’s underlying securities’ creditworthiness.

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Principle 2: Signatories’ governance, resources and incentives support stewardship.

Our investment approach is rooted in proprietary fundamental analysis, with ESG factors assessed alongside financial, macro, and other qualitative factors. We believe ESG integration is most effective when executed by experienced investors who know the company or issuer well, which is why the responsibility for integrating ESG into investment decisions lies with our analysts and portfolio managers.

Our research analysts incorporate ESG factors into company valuations and ratings, while our portfolio managers balance the ESG factor exposures at a portfolio level. Our in-house ESG specialists support the investment team through all stages of the investment process: identification, analysis, and integration. Our dedicated in-house ESG resource comprises two teams: Responsible Investing (RI), which covers environmental and social factors, and Governance. Together, these teams help our investors identify, analyze, and integrate the ESG factors most likely to have a material impact on the long-term performance of an investment. The biographies of our ESG specialists are available in the Appendix.

T. Rowe Price has had dedicated governance resources since 2007. The team assesses governance issues amongst existing and potential investments and provides insights to analysts and portfolio managers. It assists with company engagements, facilitates proxy voting and participates in industry initiatives.

Our dedicated RI team conducts analysis on the environmental and social profiles of individual securities and portfolios. The team, which has been in place since 2017, also assists with company engagement. Prior to developing our own in-house Responsible Investing Indicator Model (RIIM), our analysts and portfolio managers were able to leverage ESG research from Sustainalytics, which has been embedded in our proprietary research database since 2014.

A proprietary model for ESG analysis

Environmental, social and governance factors are not as straight-forward to integrate into the investment process as financial data, given their often times qualitative nature. Environmental and social data present an additional challenge due to the underdeveloped nature of the dataset. In order to address these issues, we have developed our own proprietary framework to help our investors more easily integrate ESG factors into their investment process.

Our framework is called the Responsible Investing Indicator Model (RIIM). It offers two key advantages in that it:

- Proactively searches large universes of ESG data and presents an easy to digest profile of a specific security, portfolio or benchmark; and gives us a systematic framework for measuring and comparing the ESG characteristics of securities.
- We have developed RIIM frameworks across asset classes covering equities, corporate bonds, sovereign bonds, municipal bonds and securitized bonds. Our RIIM frameworks are unique for each asset class as the level and type of data available varies across asset classes.

RIIM Analysis Across Asset Classes

For equities, corporate bonds and sovereign bonds, we are able to leverage ESG datasets and feed those directly into our RIIM framework. This allows us to generate a quantitative RIIM profile for approximately 15,000 corporate securities and approximately 200 sovereign issuers. This quantitative set of scores is a helpful starting step in our ESG evaluation process in that it helps us quickly identify any outliers (positive or negative). Additionally, it creates a baseline of understanding of our investment universe, from which we can delve more deeply with fundamental analysis on a narrower universe of securities. The output of our quantitative analysis is also instrumental in informing our engagement program.

The ESG data universe for municipal and securitized issuers is developing, but at the current time we have not found datasets to reliably integrate directly into our investment process. Instead, we use third party ESG research alongside our own fundamental research to develop a RIIM profile for each issuer.
Figure 1: The RIIM framework for Corporate and Sovereign issuers

**EQUITIES & CORPORATE BONDS**

**RIIM Corporates**

RIIM generates an RI profile for approximately 15,000 companies. This provides our investors with a way to measure ESG factors in a systematic way – giving us a common language for comparing the ESG profiles of companies.

The corporate RIIM framework leverages external quantitative datasets to scan for factors that could influence our investments (either positively or negatively). Additionally, it incorporates data sets we have built in-house.

**200+ DATA INPUTS**

**22 CATEGORIES**

- Environmental
- Social
- Ethics

**QUANTITATIVE RIIM SCORE***

(approx. 15,000 companies)

* Green (circle) indicates no/few flags, Amber (square) indicates medium flags, Red (triangle) indicates high flags.

**SOVEREIGN BONDS**

**RIIM Sovereigns**

RIIM generates an RI profile for sovereign issuers. This provides our investors with a way to measure ESG factors in a systematic way – giving us a common language for comparing the ESG profiles of sovereign issuers.

The sovereign RIIM framework leverages external quantitative datasets as well as our own research on these issuers.

The sovereign RIIM scores are incorporated in the overall sovereign issuers score, which also includes factors such as GDP, inflation and other traditional factors.

**90+ DATA INPUTS**

**35 CATEGORIES**

- Environmental
- Social
- Governance

After the quantitative analysis in RIIM is completed, ESG specialists conduct fundamental research on select companies and sovereign issuers. Analysts and portfolio managers can use this data and the analysis of our responsible investing and governance teams to incorporate ESG factors into an investment thesis, company ratings, price targets, engagements, position sizing and proxy voting decisions.

* Green (circle) indicates no/few flags, Amber (square) indicates medium flags, Red (triangle) indicates high flags.
Principle 2: (continued)

RIIM Analysis: Individual Company Level

<table>
<thead>
<tr>
<th>RIIM INDICATOR</th>
<th>— Not Material</th>
<th>● No/Few Flags</th>
<th>■ Medium Flags</th>
<th>▲ High Flags</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>● Supply chain (environment)</td>
<td>▲ Raw materials</td>
<td>■ Energy and emissions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▲ Land use</td>
<td>■ Water use</td>
<td>● Waste</td>
<td>● General operations</td>
</tr>
<tr>
<td></td>
<td>● End Product</td>
<td>▲ Product sustainability</td>
<td>● Products and services environmental incidents</td>
<td></td>
</tr>
<tr>
<td>Social</td>
<td>● Human Capital</td>
<td>▲ Supply chain (social)</td>
<td>▲ Employee safety and treatment</td>
<td>■ Evidence of meritocracy</td>
</tr>
<tr>
<td></td>
<td>● Society</td>
<td>● Society and community relations</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>● End Product</td>
<td>● Product sustainability</td>
<td>● Product impact on human health and society</td>
<td>● Product quality and customer incidents</td>
</tr>
<tr>
<td>Ethics</td>
<td>● Business ethics</td>
<td>■ Bribery and corruption</td>
<td>■ Lobbying and public policy</td>
<td>■ Accounting and taxation</td>
</tr>
<tr>
<td></td>
<td>■ Board and management conduct</td>
<td>▲ ESG accountability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data Incidents</td>
<td>● Data and privacy incidents</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

RIIM Analysis: Sovereign Debt Issuer Level

| Environment    | ● Climate pressure | ▲ Energy and emissions | ● Land use | ● Biodiversity | ▲ Fresh water | ● Oceans |
| Social         | ● Population | ● Health | ● Safety | ● Education and employment | ● Infrastructure | ● Equality (Income/Gender) |
| Governance     | ● Voice and accountability | ■ Political stability | ● Government effectiveness | ▲ Regulatory quality | ■ Rule of law | ▲ Control of corruption |
Principle 2: (continued)

Figure 3: RIIM framework for Municipal and Securitized Bonds

In 2020, we broadened the Asset Class Coverage of our RIIM model to include Municipal and Securitized Bonds.

MUNICIPAL BONDS

RIIM Municipal Bonds

Our municipal bond analysts create an ESG rating for issuers by evaluating specific criteria for individual issuers.

To establish RIIM ratings, the municipal bond analysts conduct research in-house leveraging external data sources as well as their own direct research.

Environmental and social analysis leverages geospatial research tools.

SECURITIZED BONDS

RIIM Securitized Bonds

Our securitized bond analysts create an ESG rating for issuers by evaluating specific criteria for individual issuers.

To establish RIIM ratings, the securitized bond analysts conduct research in-house leveraging external data sources as well as their own direct research.

Where there is overlap on issuers, the securitized bond analysts can leverage RIIM scores from other asset classes.

T. Rowe Price Board and Fund Governance

The T. Rowe Price Board has an Audit Committee, an Executive Compensation and Management Development Committee (Compensation Committee), a Nominating and Corporate Governance Committee and an Executive Committee. The Board has also authorized a Management Committee that is made up entirely of senior officers of the Company. The Nominating and Governance Committee of the Board of Directors of T. Rowe Price oversees the firm’s ESG activity and receives annual updates. In addition, the applicable T. Rowe Price Funds’ Board of Directors approve the investment management agreements annually and receive periodic updates on our ESG initiatives.

The ESG Committee, made up of senior leaders, oversees ESG integration. It is co-chaired by the Head of Corporate Governance and the Director of Research, Responsible Investing. The committee’s primary purpose is to assist the Equity Steering Committee, International Steering Committee, Multi-Asset Steering Committee and Fixed Income Steering Committee of T. Rowe Price Group in establishing the firm’s investment advisors’ frameworks for:

- Assessing environmental, social and governance issues
- Maintaining an appropriate set of proxy voting guidelines
- Overseeing and approving exclusion lists for use in various investment capacities

* Green (circle) indicates no/few flags, Amber (square) indicates medium flags, Red (triangle) indicates high flags.
Principle 2: (continued)

The committee submits an annual report to the applicable T. Rowe Price Funds’ Board of Directors summarizing voting results, policies, procedures and other noteworthy items.

Figure 4: T. Rowe Price Governance Framework

Accountability for ESG starts at the top

Fully integrated within Investments

Our dedicated, in-house ESG resources are located within the Investments division and report directly to senior management level. The Director of Research, Responsible Investing reports to the Head of Investments and Group Chief Investment Officer. The Head of Corporate Governance reports to the co-Head of Global Equity.

Our analysts are responsible for incorporating ESG factors into their investment recommendations; as such it is incorporated in their incentives and discussed as part of their annual performance review. The Directors of Research for Equity and Fixed Income oversee the investment analysts and how they implement ESG factors in their investment process, receiving input from the Director of Research, Responsible Investing and the Head of Corporate Governance. Our portfolio managers are responsible for incorporating ESG factors into their investment decisions; as such it is incorporated in their annual performance review as appropriate to the fund’s mandate.
Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

The ownership structure of our company serves to eliminate certain categories of potential conflicts of interest with regard to our stewardship activities. T. Rowe Price Group, Inc., the parent company of our investment manager T. Rowe Price International Ltd, is a publicly traded issuer, listed on the NASDAQ exchange in the United States. Our primary line of business is providing investment advisory services to clients, supported by certain ancillary services such as brokerage.

We have been in the investment management business since 1937 and have operated as a publicly traded corporation since 1986. The firm’s size provides a solid, debt-free financial foundation to support our clients’ needs. Our strong balance sheet and considerable financial resources are conservatively managed and have made our firm one of the strongest in the industry. Without preoccupation regarding stability and viability, we are enabled to focus on serving the investment management needs of our clients. Consequently, we do not encounter conflicts of interest related to transactional relationships with issuers of corporate securities across various divisions of our firm that we might encounter if we had a different ownership structure.

At T. Rowe Price, our overarching approach to dealing with potential conflicts of interest is to resolve them in the manner that solely takes into consideration the interests of our advisory clients. With regards to stewardship activities, we believe the most likely source of any potential conflicts between the interests of our firm and the interests of our advisory clients would arise in the context of proxy voting or escalated forms of engagement such as formal, written correspondence with a portfolio company. We believe neither our regular research activities nor our routine ESG-related engagement gives rise to any potential conflicts.

Addressing potential conflicts of interest

Our Proxy Voting Policies & Procedures describe our effort to avoid potential conflicts of interest by limiting membership on our firm’s ESG Committee to individuals whose job responsibilities do not include client relationship management, marketing, or sales. Additionally, we believe any votes that follow our firm’s pre-determined, standard proxy voting guidelines would not tend to result in potential conflicts of interest. Proxy votes that are cast contrary to our pre-determined guidelines could result in a potential conflict if the investee company is also a significant business partner, trading counterparty, supplier, or client of our firm. Therefore, we require that fund managers document their reasoning for any votes contrary to our voting policies, and we subject these votes to an extra level of scrutiny by a group of experienced ESG Committee members before the vote is cast.

Another area where our clients may encounter potential conflicts of interests with each other is when they own different securities of the same issuer. For instance, we may have some strategies that purchase preferred stock while other clients hold common stock. Or we may invest in both debt and equity instruments of a particular issuer. There are instances when the interests of the owners of these various securities could conflict with each other. Our mechanisms for managing these potential conflicts include (a) involvement of the senior management of our firm and (b) full internal transparency among the interested parties.

For example, when a portfolio manager who owns common stock in a company wishes to write a letter to the board advocating for a particular change in strategic direction or an improvement in corporate governance practices, our Compliance division checks to see whether our firm’s clients also own any debt instruments of the company. If they do, the fixed income portfolio manager is given an opportunity to review the letter and provide comments. (Similarly, initiatives instigated by a fixed income portfolio manager would in turn allow for equity portfolio managers to contribute.) The leaders of our Equity and Fixed Income divisions, together with our Legal & Compliance staff, would be called in to assess the ways that our recommendations to the company would affect the performance of its various securities if they were to be adopted. Generally speaking, T. Rowe Price refrains from sending any letter to a company if doing so would bring advantages to one class of securities owned by our clients at the expense of any other class.
Principle 3: (continued)

We would note that our portfolio managers and analysts routinely engage with managements of the companies in our clients’ portfolios. These discussions generally focus on company strategy, financial and operational performance, industry conditions, and capital allocation, although they often include some discussion of environmental, social, or governance topics as well. It is possible, though unlikely, that clients in different strategies may have different interests with regard to the performance of the issuer, for example its capital allocation priorities. Full internal transparency is the mechanism we employ to manage such potential conflicts. All meetings with management teams are open and fully visible on a calendar shared across our US Equity, Global Equity, and Fixed Income teams. Credit and equity analysts routinely participate in management meetings together, providing feedback to companies from their individual perspectives. By providing full internal transparency and access to these meetings, we ensure that the interests of clients across all strategies are fairly represented.

Finally, conflicts of interest can also occur on an individual level. Our policy states that fund managers or ESG Committee members with personal conflicts of interest regarding a particular vote must not participate in the voting or engagement decisions with respect to that company.
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

How we identify market-wide and systemic risks

The foundation of the investment process at T. Rowe Price is proprietary, fundamental, bottom-up research on securities for our clients’ portfolios. Assessing the potential for political risk is an important component of this process.

T. Rowe Price has invested in significant internal and external resources in order to understand political and regulatory risks at the industry level. Our full-time specialist analyst in our equity division works with our industry analysts to identify the most significant sources of potential regulatory and political change, and how such change will likely affect the industries and companies they follow. These analysts have built a large network of contacts over the years, including state and federal legislators, staffers, regulatory officials, industry trade group leaders, lobbyists and others. Meeting with people in these positions allows our analysts to hone their analyses of the potential for political impact within their industry groups. Finally, we also have access to a number of external research providers who specialize in political analysis for investors. Our assessment of political risk takes a number of forms:

At a firm level, T. Rowe Price has a comprehensive risk management program in place to monitor, continually assess, and respond to potential risks. Identifying and monitoring emerging issues is a key component of this process and includes the assessment of industry, market, political, and other events for indications of emerging issues or trends to determine whether an internal response is needed.

Particular considerations within Fixed Income and Emerging Markets Equity

Our Fixed Income division has analysts dedicated to sovereign and corporate credit analysis, and a significant part of their responsibility is assessing political risk. Research conducted by this team consists of macroeconomic analysis and key quantitative variables for each country such as GDP growth, inflation, fiscal budgets, debt levels, and the current account balance as well as qualitative factors such as political and institutional stability, government transparency and geopolitical threats in each country considered for investment. One of the primary outputs of our research process is the establishment of a proprietary country rating, which helps to identify long-term relative value. On-site formal research visits are an integral part of this research process and frequently include meetings with key government officials and corporate management teams. Sovereign analysts visit policymakers from their respective countries several times a year, regularly making trips to the country under review. During these due diligence trips, analysts may meet with central bank officials, government leaders, and representatives from large government-owned enterprises.

Similarly, our Emerging Markets Equity team employs a process that combines macro-economic analysis with bottom-up company research. The team takes into account a range of country- and company-specific factors. In order to meet the strategy’s high-quality sustainable growth criteria, an emerging markets company must exhibit sound fundamentals and operate within micro- and macroeconomic frameworks that are conducive to its long-term growth. While the stock-level decision is the most important, in our view, an understanding of country factors is also crucial. Our portfolio managers and analysts develop macroeconomic perspectives in collaboration with our emerging markets debt team. In addition to the political environment, currency factors, and monetary and fiscal policies, etc., we also evaluate the repatriation of assets and the treatment of foreign shareholders. On a periodic basis, our managers rank each country based on microeconomic factors, as well as levels of foreign direct investment. Low rankings can and do influence our country exposure.

Incorporation of market wide risks in RIIM

Our Sovereign RIIM model considers factors such as the age dependency ratio, income inequality, female participation in the workforce, unemployment and literacy rates in a country’s profile; it also considers World Bank governance indicators. This analysis is used to assess sovereign debt issuances, but more broadly can inform our perspective on an individual country or region.
Principle 4: How we promote a well-functioning financial system

Our Legal and Regulatory Affairs function monitors for new and amended regulatory requirements globally, including those relevant to the work of the Responsible Investing and Governance teams.

The Responsible Investing and Governance teams participate in advocacy initiatives on a selective and strategic basis, and we recognise there is an opportunity to make our voice heard more frequently in future. Sometimes we will engage individually in policy advocacy, participating in public comment periods offered by regulators, as in the examples below.

Submission to the U.S. Department of Labor, July 2020

We wrote to the U.S Department of Labor in July 2020 providing comments on the proposed rule, Financial Factors in Selecting Plan Investments Proposed Regulation, noting three central shortcomings of the proposed rule with respect to ESG.

“First, the proposal is premised on an assumption—unsupported by any cited facts—that fiduciaries under the Employee Retirement Income Security Act (ERISA) are currently misusing ESG. Second (and relatedly), the proposed rule does not make sufficient distinction between healthy and appropriate integration of ESG considerations into investment decisions and the distinct task of evaluating ESG-themed investments. Third, the proposal fails to recognize the breadth of financial or “pecuniary” factors, and the complexity of evaluating them. These flaws work together to create a rule that, if adopted, may cause more harm to participants than good, first by causing fiduciaries unnecessarily to avoid investments and managers that appropriately employ ESG integration, and second by discouraging fiduciaries from selecting ESG-themed investments that might improve financial outcomes in retirement for their participants and beneficiaries.”

Submission to the U.S. Securities and Exchange Commission, December 2020

We wrote to the U.S Securities and Exchange Commission in December 2020 providing comments on the proposed NASDAQ rule change related to Board diversity SR-2020-081. We support the proposal as both a Nasdaq-listed issuer and as an investment advisor.

If approved by the SEC, the new listing rules would require all companies listed on Nasdaq’s U.S. exchange to disclose diversity statistics regarding their board of directors. Additionally, the rules would require most Nasdaq-listed companies to have, on a comply or explain basis, at least two diverse directors, including one who self-identifies as female and one who self-identifies as either an underrepresented minority or LGBTQ+.

This year we also wrote to the Bangladeshi Securities and Exchange Commission expressing serious concerns about prolonged disruptions to trading.

To the extent we believe collaboration with other institutions both benefits our advisory clients and is allowable under the applicable regulatory framework, we are willing to work collaboratively with other investors to promote good market practice. We provide feedback to consultation responses produced by industry associations such as the European Fund and Asset Management Association (EFAMA,) and participate in roundtables convened by organisations like the UK Investment Association.

Member of the UK PLSA working group

We participated in the industry working group convened by the UK Pensions and Lifetime Savings Association (PLSA) to produce the Implementation Statement guidance for pension trustees. The group was also responsible for the Vote Reporting Template.
Principle 4: (continued)

In Japan we participated in a survey from the Cabinet Office on how asset managers are using information related to workforce disclosure to guide their investment activities in the market.

We also contribute to a well-functioning financial system by implementing official exclusions which reflect our interpretation of legal requirements or market expectations in the region, such as:

- We maintain a global exclusion list on issuers with significant business ties to the government of the Republic of Sudan and its connection to human rights abuse.
- In the UK, Luxembourg and Canadian registered portfolios, we maintain an exclusion policy on certain issuers deemed to be engaged in the manufacture, production, or assembly of cluster-munitions systems.
- In our Australian registered portfolios, we maintain an exclusion policy on issuers engaged in the manufacture of tobacco products.
- All portfolios can be subject to sanction-related exclusions. At any point in time, a portfolio may be prohibited from investing in certain sovereign or corporate instruments associated with targeted U.S. or international sanctions.

Responsible risk mitigation is reflected in our approach to portfolio construction, which seeks to create portfolios with diversified factor, currency and sovereign risk. Also, T. Rowe Price has no outstanding debt and maintains substantial cash reserves, so our balance sheet strength could, in the event of a liquidity issue in one of our funds, see us solve a mismatch for the benefit of clients. It is also a source of strength in an industry which, by its exposure to volatile markets, is inherently operationally geared.
**Principle 5:**
Signatories review their policies, assure their processes and assess the effectiveness of their activities.

There are certain committees or working groups within T. Rowe Price which review our policies, practices and communications related to ESG.

- As described under Principle 2, the work of the Responsible Investment and Governance teams is overseen by the ESG Committee. The majority of the Committee are investors, with other representatives drawn from the Responsible Investment, Governance and Legal teams. Additional working groups are set up either for specific projects or on an ongoing basis. One example would be the exclusion lists, which are applied to certain strategies; these are reviewed by the exclusion list advisory group (ELAG.)

- The ESG Taskforce reports up to the Investment Management Steering Committee, (IMSC.) The executive sponsor of the ESG Taskforce is the Head of EMEA Distribution and the two co-chairs are the Director of Research, Responsible Investing and the Head of ESG Marketing and Communications. The purpose of the ESG Taskforce is to increase the level of ESG awareness and communication within the business to develop a more globally calibrated perspective on ESG practices. This Taskforce and its sub-workstreams will be discussed in more detail under Principle 6.

Like any business function, the Responsible Investment and Governance teams are also subject to assurance by internal audit. The head of the Internal Audit Department and staff execute an annual strategic audit plan under the guidance of the Audit Committee of the Board of Directors (the “Board”) of T. Rowe Price Group, Inc. Audits are proposed based on risk attributes, process maturity, and industry developments. The annual audit plan is reviewed and approved by the Audit Committee of the Board, with regional plans being developed as appropriate.

As part of the audit plan, Internal Audit reviews all key areas of T. Rowe Price and its entities, including ESG, Investments, Distributions, Corporate functions and associated processes to ensure the adequacy of operational processes and controls and recommend remediation where appropriate. Both Senior Management and Business Unit leaders also employ the Internal Audit Department for special projects which may include new processes, system implementations, or special investigations. All audit findings require written responses from the applicable business unit head which include implementation strategies, dates of implementation, and assigned ownership. Internal Audit monitors all audit findings and remediation activities and reports the status to the Audit Committee and firm’s Management Committee.

Our internal control framework is designed to manage its risk and provide a sound operational environment through monitoring of key risks and controls. In addition, our independent auditors will make an assessment for the current reporting period ending in September of each calendar year which will be published as part of the SOC-01 report.

**Review by Group Strategic Compliance of our Proxy Voting**

In July 2020 our Group Strategic Compliance team reviewed the oversight and monitoring of proxy voting decisions executed by proxy adviser, Institutional Shareholder Services, on behalf of T. Rowe Price Associates, Inc. and its affiliated investment advisers. No issues were identified during the review, either with the process design or its application.
Principle 5: (continued)

A key part of our annual self-assessment and internal reflection on opportunities for improvement is our disclosure against the reporting framework of the Principles for Responsible Investing (PRI.) We became a signatory in 2010 and report to the PRI annually. The PRI summary scorecard below provides an overview of our aggregate score for each module assessed and the median score. These bands range from A+ (top band) to E (lowest band.)

Figure 5: T. Rowe Price PRI Scorecard 2020

As of July 2020

For illustrative purposes only,

Under the PRI’s transparency requirements, all signatories complete an annual self-assessment. A significant portion of this report must be publicly disclosed on the PRI’s web site.

T. Rowe Price’s most recent Transparency Report is available via the PRI data portal https://www.unpri.org.

The PRI Summary Scorecard provides an overview of our aggregate score for each module assessed and the median score. These bands range from ‘A+’ (top band) to ‘E’ (lowest band). The PRI Assessment scoring methodology is available at https://www.unpri.org.

Source: PRI Assessment Report 2020, showing the applicable T. Rowe Price scores.

1 Asset classes were aggregated to four ranges: 0%; <10%; 10-50% and >50%.
Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Investment approach

We welcome discussions with clients on ESG topics, either as part of the regular monitoring discussions or on an ad hoc basis as issues arise. Indeed, the ESG Taskforce (discussed under Principle 5) created sub-workstreams to ensure that what we hear is reflected in our ESG communications and client reporting.

The main way we communicate our stewardship activities and any key outcomes is through our ESG Annual Report. Selected examples of engagements on ESG topics are incorporated into the standard quarterly reporting for our strategies. We also provide ad hoc reporting on request, such as the PLSA Vote Reporting Template.

The ESG Market intelligence Workstream was established beneath the ESG Taskforce to surface key market trends and insights globally. Client Relationship Managers from the Americas, EMEA and Asia-Pacific serve on the workstream along with representatives from Market Research and Product.

Listening to our clients’ needs

The ESG Market Intelligence Workstream began an engagement programme with clients in 2019 which identified the high priority reporting enhancements. In 2020, in response to the feedback received, enhanced reporting on our ESG engagements and the carbon footprint of each strategy was deployed across the product portfolio.

ESG reporting at the portfolio level

We plan to roll-out ESG reporting across all our co-mingled fund vehicles. Additionally, we are able to accommodate requests for ESG reporting on separate accounts.

Figure 6: Examples of our ESG, Carbon Footprint and Proxy Voting Summary reports

For illustrative purposes.
Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

ESG analysis is one of the many building blocks that make up our investment research platform. As described under Principle 2, we have invested heavily in people and systems to develop a comprehensive, systematic, and proactive process for evaluating environmental, social, and ethical factors across corporate investments.

Our ESG philosophy is based on the following principles:

- **Integration**: Environmental, social, and governance analysis is integrated into our fundamental investment process. ESG factors are considered in tandem with traditional criteria such as financial, valuation, macroeconomic, industry-related, and other factors as part of investment decision-making. Our analysts and portfolio managers have responsibility for integrating ESG factors into investment decisions.

- **Collaboration**: Our analysts and portfolio managers are supported by specialist ESG teams that have created proprietary tools to identify ESG factors that may impact an investment case, provide written research on ESG topics (both investment specific and thematic), and provide subject matter expertise on specific issues.

- **Materiality**: Our investment approach focuses on the ESG factors deemed to be more likely to have a material impact on the performance of investments in our clients’ portfolios. This approach helps to focus on the ESG issues most relevant to a specific business model.

Because the assets of T. Rowe Price’s clients are predominantly actively managed, we have the option to avoid or sell the security in most cases. When a company is exhibiting poor business practices around environmental, social or governance issues, our first step is often to assess whether or not we believe our engagement efforts will be successful. If we do not believe engagement will yield a positive outcome, we may choose to underweight or sell the shares and/or bonds.
Principle 7: (continued)

The table below illustrates the different aspects of an investee company’s capital structure that we consider as part of our analysis, to the extent these are relevant over the expected time horizon of the investment.

**Figure 7: ESG Integration Considerations**

<table>
<thead>
<tr>
<th>FINANCIAL ANALYSIS</th>
<th>VALUATION</th>
<th>MACROECONOMICS &amp; INDUSTRY ANALYSIS</th>
<th>ENVIRONMENTAL</th>
<th>SOCIAL</th>
<th>GOVERNANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equities and Bonds</strong></td>
<td><strong>Equities</strong></td>
<td>Dividend yield</td>
<td><strong>Equities and Bonds</strong></td>
<td>Adaptability of sourcing</td>
<td><strong>Equities and Bonds</strong></td>
</tr>
<tr>
<td>Balance sheet quality</td>
<td><strong>DOF</strong></td>
<td>EBITDA</td>
<td>Barriers to entry</td>
<td><strong>Biodiversity impact</strong></td>
<td><strong>Corporate Bonds</strong></td>
</tr>
<tr>
<td>Capital structure</td>
<td>Price/book</td>
<td></td>
<td>Competitive dynamics</td>
<td><strong>Emissions intensity</strong></td>
<td><strong>Debt covenants</strong></td>
</tr>
<tr>
<td>Cash flow growth</td>
<td>Price/earnings</td>
<td></td>
<td>Cost of capital</td>
<td><strong>Emission tracking</strong></td>
<td><strong>Bond covenants</strong></td>
</tr>
<tr>
<td>Debt/equity</td>
<td>FCF yield</td>
<td></td>
<td>Economic growth</td>
<td><strong>Competitive advantage</strong></td>
<td><strong>Corporate Bonds</strong></td>
</tr>
<tr>
<td>Dividend sustainability</td>
<td></td>
<td></td>
<td>Foreign exchange</td>
<td><strong>Corporate social responsibility</strong></td>
<td><strong>Credit risk</strong></td>
</tr>
<tr>
<td>Earnings growth/quality</td>
<td></td>
<td></td>
<td>Industry cost curves</td>
<td><strong>Customer relations</strong></td>
<td><strong>Rating downgrade risk</strong></td>
</tr>
<tr>
<td>Earnings track record</td>
<td></td>
<td></td>
<td>Industry life cycle</td>
<td><strong>Customer preferences</strong></td>
<td><strong>Spread per unit of leverage</strong></td>
</tr>
<tr>
<td>EPS “surprise” potential</td>
<td></td>
<td></td>
<td>Integration of eco-design</td>
<td><strong>Data privacy</strong></td>
<td><strong>Yield to maturity</strong></td>
</tr>
<tr>
<td>Inventory turnover</td>
<td></td>
<td></td>
<td>New cities infrastructure</td>
<td><strong>Diversity and inclusion</strong></td>
<td><strong>Economic risk</strong></td>
</tr>
<tr>
<td>Leverage ratios</td>
<td></td>
<td></td>
<td>Pesticide safety standards</td>
<td><strong>Environmental management</strong></td>
<td><strong>Energy risk</strong></td>
</tr>
<tr>
<td>Management quality</td>
<td></td>
<td></td>
<td>Product end of life</td>
<td><strong>Ethical leadership</strong></td>
<td><strong>Environmental risk</strong></td>
</tr>
<tr>
<td>Off-balance sheet items</td>
<td></td>
<td></td>
<td>Regulatory dynamics</td>
<td><strong>Exclusions</strong></td>
<td><strong>Environmental risk</strong></td>
</tr>
<tr>
<td>Operating margins</td>
<td></td>
<td></td>
<td>Site restoration provisions</td>
<td><strong>Fairness</strong></td>
<td><strong>Environmental risk</strong></td>
</tr>
<tr>
<td>Receivables turnover</td>
<td>Rating downgrade risk</td>
<td></td>
<td>Sustainable raw materials</td>
<td><strong>Financial stability</strong></td>
<td><strong>Environmental risk</strong></td>
</tr>
<tr>
<td>Scenario analysis</td>
<td>Spread per unit of leverage</td>
<td></td>
<td>Waste recycling (mgmt.)</td>
<td><strong>Financial sustainability</strong></td>
<td><strong>Environmental risk</strong></td>
</tr>
<tr>
<td><strong>Sovereign Bonds</strong></td>
<td>Yield to maturity</td>
<td></td>
<td>Water intensity</td>
<td><strong>Financial strength</strong></td>
<td><strong>Environmental risk</strong></td>
</tr>
<tr>
<td>Balance of trade</td>
<td></td>
<td></td>
<td>Water resources</td>
<td><strong>Financial sustainability</strong></td>
<td><strong>Environmental risk</strong></td>
</tr>
<tr>
<td>Cash reserves</td>
<td></td>
<td></td>
<td><strong>Sovereign Bonds</strong></td>
<td><strong>GDP growth</strong></td>
<td><strong>Environmental risk</strong></td>
</tr>
<tr>
<td>External debt</td>
<td></td>
<td></td>
<td><strong>Credit risk</strong></td>
<td><strong>Global demographic trends</strong></td>
<td><strong>Environmental risk</strong></td>
</tr>
<tr>
<td>Fiscal performance</td>
<td></td>
<td></td>
<td><strong>Rating downgrade risk</strong></td>
<td><strong>Global health</strong></td>
<td><strong>Environmental risk</strong></td>
</tr>
<tr>
<td>Foreign liquidity</td>
<td></td>
<td></td>
<td><strong>Spread per unit of leverage</strong></td>
<td><strong>Growth of population</strong></td>
<td><strong>Environmental risk</strong></td>
</tr>
<tr>
<td>Government finances</td>
<td></td>
<td></td>
<td><strong>Yield to maturity</strong></td>
<td><strong>Governmental structures</strong></td>
<td><strong>Environmental risk</strong></td>
</tr>
</tbody>
</table>

Many of our strategies have an investment time horizon over a full economic cycle. Consistent with that objective, we have an obligation to understand the long-term sustainability of the companies in which we invest, which is why environmental, social, and governance factors are key considerations in our investment approach. When determining which data points to evaluate across an industry/region, materiality to the underlying business model is one of the key determinants used in our analysis.

**Incorporating ESG considerations in the investment case: Equinor ASA**

After rolling out a new set of ambitious targets that include the company’s scope 1-3 emissions, we engaged with Equinor to focus on the topic of reducing scope 3 emissions. A significant barrier for oil & gas companies looking to get into the renewables space is cost of capital as this sector cannot carry the same debt levels as the utility competitors given the volatility of their legacy business. We wanted to understand the approach Equinor would pursue to successfully shift its business away from fossil fuels. The engagement informed our investment research.
**Principle 7:**

(continued)

<table>
<thead>
<tr>
<th>ENVIRONMENTAL FACTORS</th>
<th>SOCIAL FACTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eco-design product/electric vehicles</td>
<td>Treatment of workers in the supply chain</td>
</tr>
<tr>
<td>Responsible sourcing (cotton, synthetic textiles, etc.)</td>
<td>Employee relations (unions/“living wage” workers)</td>
</tr>
<tr>
<td>Waste management</td>
<td>Customer behavior (online shift)</td>
</tr>
</tbody>
</table>

| Consumer Staples | | |
|------------------|-----------------|
| Organic products | Fair trade products |
| HCFCs phase-out | Supply chain management (vulnerable agri-chains) |
| Responsible sourcing (palm oil and other agri-products) | Human health impact (sugar, tobacco, etc.) |

<table>
<thead>
<tr>
<th>Energy</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Methane emissions</td>
<td>Employee and contractor health and safety</td>
</tr>
<tr>
<td>Risk of stranded assets</td>
<td>Relations with local communities</td>
</tr>
<tr>
<td>Refined/chemical emissions</td>
<td>Bribery and corruption</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financials</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable financing</td>
<td>Human capital management (talent retention)</td>
</tr>
<tr>
<td>Environmentally-related products (drought protection)</td>
<td>Cybersecurity</td>
</tr>
<tr>
<td>Natural catastrophe risk</td>
<td>Business ethics</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Health Care</th>
<th></th>
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<tbody>
<tr>
<td>Water usage</td>
<td>Product safety</td>
</tr>
<tr>
<td>Waste disposal</td>
<td>Cybersecurity</td>
</tr>
<tr>
<td></td>
<td>Appropriate marketing/lobbying practices</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Industrials</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy-efficient products</td>
<td>Bribery and corruption (aerospace and defense)</td>
</tr>
<tr>
<td>Intermodal transportation shifts</td>
<td>Product safety</td>
</tr>
<tr>
<td>Manufacturing environmental footprint</td>
<td>Robotics</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>Information Technology</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>“Smart” appliances and infrastructure</td>
<td>Data privacy</td>
</tr>
<tr>
<td>Water usage (semiconductors)</td>
<td>Responsible sourcing (conflict minerals)</td>
</tr>
<tr>
<td>Product end-of-life</td>
<td>Human capital management (talent retention)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Materials</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Emissions</td>
<td>Employee and contractor health and safety</td>
</tr>
<tr>
<td>Efficient building products</td>
<td>Relations with local communities</td>
</tr>
<tr>
<td>Responsible pesticide usage</td>
<td>Bribery and corruption</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Real Estate</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Eco-friendly buildings</td>
<td>Local communities/affordable housing</td>
</tr>
<tr>
<td>“New cities” infrastructure</td>
<td>Demographic shift/aging population</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Telecommunications</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intelligent and efficient network infrastructure</td>
<td>Cybersecurity</td>
</tr>
<tr>
<td></td>
<td>Improving lives through connectivity</td>
</tr>
<tr>
<td></td>
<td>Responsible sourcing (conflict minerals)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Utilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shift toward distributed power</td>
<td>Employee and contractor health and safety</td>
</tr>
<tr>
<td>Electric mix shift toward renewables/grid stability</td>
<td>Relations with local communities</td>
</tr>
<tr>
<td>Stranded assets</td>
<td>Human health impact (particulate emissions)</td>
</tr>
</tbody>
</table>

**ESG integration**

We have a common approach to ESG integration across all funds, asset classes and asset classes. The process of ESG integration takes place on two levels - firstly with our research analysts as they incorporate environmental, social and governance factors into company valuations and ratings as appropriate to their strategy and, secondly, with the portfolio manager as he/she 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 analysing ESG criteria.

**Incorporating ESG considerations in the investment case: Republic of Belarus**

During a group meeting with Government and Central Bank of Belarus representatives, we discussed the energy and emissions flag identified through our RIIM analysis. They indicated that the country intends to reduce its hydrocarbon intensity and improve its energy diversification through a pipeline of green energy projects. We were reassured of their commitment to the low carbon transition.

Our ESG specialist teams provide research tools as well as written research, which our analysts and PMs can integrate as appropriate to their investment process. As each portfolio manager uses financial, valuation, macro and other factors uniquely within their investment process, so each portfolio manager also uses ESG factors in a manner that is unique to their investment process. The integration of ESG factors into our investment process starts with the initial research at the inception of an investment idea and continues through the life of the investment.
ESG integration for equity and fixed income portfolios relies on a three-step process:

- **Identification** – Both the Responsible Investing (environment & social) and Corporate Governance teams use a screening process to help identify outliers – both on the positive and negative side. The Corporate Governance team uses our proxy voting standards to establish a screen, while the Responsible Investing team uses our proprietary Responsible Investing Indicator Model (RIIM). Both screens act as flagging tools to help the ESG specialists identify where we should focus our efforts.

- **Analysis** – The ESG specialists conduct more in-depth analysis on companies that are flagged in step 1. This further analysis is sometimes conducted solely by the ESG specialist, but often the sector analyst will be involved. This further analysis usually results in a report being published on our research platform, the Research Management System (RMS), detailing the ESG risks/opportunities of a specific investment.

- **Integration** – Analysts and portfolio managers leverage the ESG research to incorporate these factors in their investment process. For example, an analyst may make changes to their financial estimates or a portfolio manager may decide to alter their position size in a particular investment.

Figure 9: A Three-Stage Process for Proactive, Systematic ESG Integration

**1. Identification**

Proprietary research tools signal securities with ESG issues

**2. Analysis**

ESG specialists apply further analysis to securities flagged by our ESG tools

**3. Integration**

ESG analysis delivered to investment analysts and portfolio managers

- Analysts and portfolio managers incorporate ESG factors into:
  - Investment thesis
  - Security ratings
  - Price targets
  - Engagements
  - Position sizing
  - Proxy voting decisions

Data and insights from integration feed back into identification and analysis stages.
Principle 7: (continued)

Incorporating ESG considerations in the investment case: Total SE

The RIIM model contains an environmental pillar, with sub-pillars related to topics such as energy and emissions. Energy transition presents a material business risk for oil & gas companies, both in terms of the outlook for declining oil demand and the business risk that comes from transitioning into a new business (i.e. renewables, energy storage and other new energy solutions). As part of our investment research, we engaged with Total on how the company is preparing for the energy transition.

Our discussion centered on Total’s ESG strategy and the company’s ambitions for its low-carbon business. Total has made good progress over the last few years on reducing its scope 3 greenhouse gas emissions and believes that the best way to convince investors not to divest was to prove that they are making progress. The level and pace of investment into the new energies business has become a key debate. The board is in support of investing more into renewables, but only in projects that generate a good return.

The Responsible Investing team, with input from the Governance team where appropriate, conduct regular reviews with portfolio managers to discuss areas of concentrated risk or positive themes identified during the portfolio screening process.

For Equity and Corporate Fixed Income strategies, an automated portfolio evaluation tool within our proprietary framework, the Responsible Investing Indicator Model (RIIM), provides portfolio-level ESG analysis and scoring for both equity and fixed income credit portfolios and allows our portfolio managers to understand if there are concentrated environmental, social or ethical factor risks in an overall portfolio. It also allows for a comparison of the ESG characteristics of the portfolio versus the benchmark.

For Sovereign debt, the Responsible Investing Indicator Model (RIIM), enables us to assess the ESG profile of our portfolios, as well as the issuers within them. The portfolio evaluation process allows a portfolio manager to assess which individual holdings are contributors/detractors from an ESG risk/reward perspective and to identify how the portfolio is exposed to individual ESG factors (such as climate pressures, energy and emissions, gender/income equality, government effectiveness and control of corruption, among others).

The example below demonstrates how ESG factors are considered in a municipal bond investment case.

Incorporating ESG considerations in the investment case: NMHC

Revenue-backed health care debt is an area of the market that we have long favoured. One of the sector’s most recognizable issuers is Northwestern Memorial Healthcare (NMHC)—a large US health care system in the Chicago area. The integration of ESG considerations into our investment process, highlighted below, enhances our understanding of the health care system’s risk exposures, its relative value in the market, and, consequently, helps support our positive view of the credit, overall.

- From an environmental perspective, we believe there is limited risk.
- As a major academic medical center servicing a broad demographic region, the system provides essential social services.
- NMHC possesses a strong management team and good track record of delivering robust financial performance. In addition, its financial reporting is timely and thorough.
Principle 8: Signatories monitor and hold to account managers and/or service providers.

T. Rowe Price’s ESG Committee is charged with overseeing the activities of our proxy research provider, Institutional Shareholder Services (ISS). In this regard, the ESG Committee conducts various service provider oversight activities throughout the year and reviews reports on ISS’ performance and service levels.

On an annual basis, TRP requests due diligence information from ISS which includes a copy of their most recent type II-level SSAE-16 (conducted by Deloitte), current ADV, and a summary of their business continuity plan. Furthermore, we ask them to provide voting results for a select sample of votes cast to ensure they were transmitted to the issuer in a timely and accurate manner. These documents are reviewed by select members of the ESG Committee and are retained by the Global Proxy Services team. In addition to reviewing documentation, meetings are held periodically with ISS staff and senior management throughout the year, which include discussions on ISS’ business plans, their service levels, and forward-looking trends in corporate governance.

Although T. Rowe Price uses a highly customized set of guidelines for proxy voting, we still actively participate in the ISS policy development process. Each year, we participate in ISS’s policy survey, as well as smaller roundtables that ISS establishes to discuss specific policy proposals. When ISS publishes its list of new guidelines each year, the T. Rowe Price ESG Committee assesses the list to determine whether or not we believe it is appropriate to add the new policies to our custom guidelines.
Engagement

Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.

We believe our responsibilities as diligent investors do not cease with the decision to purchase a security. Our engagement program is driven by our investment professionals and usually focused on a matter that is material to the investment case. The program is conducted by our portfolio managers with the support of our industry-focused analysts and our in-house specialists in corporate governance and sustainability in order to leverage their expertise on specific companies, industries, or issues of an environmental, social, or governance nature. We do not employ any third-party organisations to engage on our behalf.

How we monitor our investments

The frequency of our monitoring activity is a function of the asset class of the investment, its reporting cycle, the size of our investment, and the degree to which we have concerns about performance. For a typical equity investment, our assigned industry analyst generally speaks with the management of the company following the public release of any significant news, financial results, or strategic developments. In between such events, our analysts are responsible for monitoring the public filings of the company as well as information from a variety of sources: broker-sponsored research, investment conferences, industry publications, and analyst days.

Due to our long-term time horizon and fundamentally driven approach to investing, monitoring of the management, performance, strategy, and governance of our investee companies is a natural extension of our investment process. Our dedicated, in-house research analysts consider tangible investment factors such as financial information, valuation, and macroeconomics in tandem with intangible investment factors related to the environment, social, and corporate governance.

When we engage

We may choose to open a dialogue with a company on an environmental, social or governance topic for a number of reasons.

- Ahead of an Annual General Meeting (AGM), we may seek further information before we make the voting decision. This is particularly likely if we are a significant shareholder and the company is actively held, but we will also request additional information from companies where our holding is extremely small or held in an index product, if we believe it is warranted by the existing disclosure and the nature of the resolution.
- Outside of AGM season, we may seek further information related to the company’s environmental, social and governance disclosures and practices. If we have previously identified there is room for improvement, we may engage to encourage the company to improve these.
- The company may have been involved in a significant controversy, and we are speaking to understand their perspective.

Engagement requests may also be initiated by the company. These may be requested for a number of reasons, including:

- Ahead of an AGM, companies may request the opportunity to speak with us if an item on the ballot is particularly controversial and they have received a negative vote recommendation from one of the proxy advisors.
- Outside of AGM season, to seek feedback on environmental, social and governance disclosures which have been published or to invite comment on practices which the company is thinking of amending.
- If the company has been involved in a significant controversy, and they wish to share their perspective with shareholders.
Principle 9: (continued)

2020 Engagement Activity

At T. Rowe Price, we are fortunate to manage US$1.47 trillion\(^1\) of assets for our clients, in predominantly actively managed portfolios. We believe the scale and scope of our business puts us in a powerful position compared with many of our peers when we carry out our ESG engagements with companies. The sheer size of our assets under management has clout. Simply put, it gives us better access to company management.

Our active investment approach also affords us real influence. In most cases, if we see an impediment to reaching our investment goals, such as a company’s poor business practices or disclosure, we have the option not to invest. This contrasts with managers of passive portfolios, which typically have no choice but to hold an investment despite any evidence of business practice or disclosure concerns.

Our investment-driven engagement program frequently identifies targets through our proprietary RIIM analysis, governance screening, and analysts’ fundamental research. ESG engagement meetings are carried out by portfolio managers and analysts from our equity and fixed income teams as well as by our ESG specialists.

While we engage with companies in a variety of investment contexts, ESG engagement focuses on learning about, influencing, or exchanging perspectives on the environmental practices, corporate governance, or social issues affecting their businesses.

Through the course of 2020, we engaged with companies on 1,002 separate occasions, sometimes more than once with the same company.

Figure 10: 2020 Engagements by Category

**Engagements by Topic (2020)**

<table>
<thead>
<tr>
<th>Environment, Social &amp; Ethics</th>
<th>Responsible Investing (Environment, Ethics, Social) &amp; Governance</th>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>14%</td>
<td>4%</td>
</tr>
<tr>
<td>Social</td>
<td>23%</td>
<td>53%</td>
</tr>
<tr>
<td>Ethics</td>
<td>&lt;1%</td>
<td></td>
</tr>
</tbody>
</table>

As of 31 December 2020.

**Top 5 Engagement Topics**

**ENVIRONMENT**

1. Disclosure of environmental data
2. Greenhouse Gas Emissions
3. Product sustainability
4. Environmental management
5. Water & waste management

**SOCIAL**

1. Disclosure of social data
2. Diversity
3. Employee safety & treatment
4. Society & community relations
5. Product sustainability

**ETHICS**

1. Compliance programs
2. Regulatory changes
3. Bribery & corruption
4. Lobbying activities
5. Facial recognition technology

**GOVERNANCE**

1. Executive compensation
2. Board diversity
3. Shareholder proposals
4. Board composition
5. ESG accountability

\(^1\)As of 31 December 2020.
Principle 9: (continued)

<table>
<thead>
<tr>
<th>ESG Engagements by Market Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$2 bn</td>
</tr>
<tr>
<td>111</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ESG Engagements by Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
</tr>
<tr>
<td>397</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ESG Engagements by Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care</td>
</tr>
<tr>
<td>141</td>
</tr>
</tbody>
</table>
Principle 9: (continued)

How we engage

Our company engagement program primarily takes place through formal letters to Boards of Directors, private meetings in our offices, conference calls, and proxy voting. When a company is participating in a business practice related to ESG issues that we believe could inhibit our ability to reach our investment goals, we make that view known to the company’s leadership through all means at our disposal. We also run a series of regional webinars for investor relations officers to share our expectations regarding ESG disclosure.

“Getting to know T. Rowe Price” engagement programme

As part of our initiative to improve ESG disclosure at our investee companies, we have held seminars for investor relations professionals to discuss several ESG topics including: 1.) how T. Rowe Price utilizes ESG factors in the investment process; 2.) best practices on ESG disclosure; and 3.) our views on key governance issues.

Groupe Bruxelles Lambert has attended two of these seminars over the past years. As a holding company, GBL faces a greater level of complexity in its disclosures. In 2020, the company has improved its disclosure. The additional information has allowed us to update our RIIM analysis for the company.

Our engagement approach is driven by company-specific investment issues such as:

- Who represents shareholders on a company’s board? Is the board a strategic asset for the company?
- Which factors drive the executive compensation program, and therefore the incentives of management?
- How robust are shareholders’ rights at the company?
- How well is the company managing its environmental risks, human capital, facilities, stakeholder relations and long-term access to critical resources?
- Are there ESG risks that could negatively affect the interests of bondholders during the period before the instrument matures?

Generally, we do not identify broad themes and then engage with multiple companies on the same issue. We believe our company-specific approach results in the highest impact because it is aligned with our core investment approach: active management rooted in fundamental investment analysis.

We apply the same approach to engaging with companies whether the holding is in an equity or fixed income portfolio, and across all geographies. However, with noncorporate entities, the nature of these engagements means that each instance requires a unique approach, based on the size of our investment, our relationship with the issuer, the state of the credit (whether in default or not) and other factors.

<table>
<thead>
<tr>
<th>Why did we engage?</th>
<th>How do we define a successful engagement?</th>
<th>What happens next?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ahead of an Annual General Meeting (AGM), we may seek further information before we make the voting decision.</td>
<td>That we have sufficient information to make an informed voting decision.</td>
<td>If we were not able to support the resolution following engagement, we will tell the company why. This may be through a pre-AGM notification email or we will tell the company directly if they ask. We do not tell third parties, even those working on behalf of the company, how we plan to vote, as we consider this a confidential matter.</td>
</tr>
</tbody>
</table>
**Principle 9:**
(continued)

Many of our pre-AGM calls seek to understand the broader context to pay decisions, which have been flagged by the TRP Custom Policy as contentious. One of these dialogues was with Cairn Homes, ahead of their May 2020 AGM to discuss the treatment of the former Finance Director, Tim Kenny.

When he departed the firm, the company chose to treat him as a ‘good leaver’ even though he was leaving for another firm which would typically make him a ‘bad leaver.’ Good leavers are usually retiring or stepping down on health grounds, and receive the full market value of their shares, while the awards tend to lapse for Bad Leavers.

This was unusually favourable treatment, and the rationale provided by the company was that he was responsible for the completion of three complex transactions during his notice period. We were uncomfortable with the explanation provided, given the reward this decision unlocked and the fact that it was not in line with typical market practice. Hence, we voted against the remuneration report, along with 19% of shareholders.

<table>
<thead>
<tr>
<th>Why did we engage?</th>
<th>How do we define a successful engagement?</th>
<th>What happens next?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside of AGM season, we may seek further information related to the company’s environmental, social and governance disclosures and practices.</td>
<td>That we have improved our understanding of the company’s practices.</td>
<td>If we have identified there is room for improvement, we will encourage the company to strengthen their approach.</td>
</tr>
</tbody>
</table>

**Edison International** is a renewable energy company, which through its subsidiaries generates and distributes electric power, and invests in energy services and technologies.

The company operates in California and faces elevated wildfire risks. We have engaged with the company on how they are working with the State of California to manage wildfire risk. Additionally, we have recommended that the company improve its ESG disclosure to report in line with the SASB and TCFD frameworks.

<table>
<thead>
<tr>
<th>Why did we engage?</th>
<th>How do we define a successful engagement?</th>
<th>What happens next?</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company may have been involved in a significant controversy, and we are speaking to understand their perspective.</td>
<td>That we have improved our understanding of the company’s practices, and the context to the incident.</td>
<td>If we have identified there is room for improvement, we will encourage the company to strengthen their approach.</td>
</tr>
</tbody>
</table>

With the onset of the coronavirus pandemic we started to see an elevated number of controversies flagging in our RIIM analysis around employee safety at Amazon. We engaged with the company on multiple occasions through 2020 to discuss the topic. Specifically, we wanted to understand if Amazon was adequately assessing whether or not employees felt safe at work. The company walked us through the technology solutions that help them assess employee morale and address any issues. These include employee surveys with anonymous responses, 3rd party hotlines where employees can report issues as well as “voice of the associate” boards posted at facilities, where employees can post questions or grievances anonymously and have them addressed by management. Additionally, during the initial stages of the pandemic Amazon provided a +US$ 2/hour bonus. This was in recognition of the volume surge being experienced as online shopping took share from traditional retailers.

Our Engagement Policy sets out our approach in more detail. T. Rowe Price publicly discloses how we have applied our Engagement Policy on an annual basis in our ESG Annual Report. The ESG Annual Report for 2020 will be available in Q2 2021.
Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.

To the extent we believe collaboration with other institutions both benefits our advisory clients and is allowable under the applicable regulatory framework, we are willing to share insights and work collaboratively with other investors.

Our participation in collaborative industry initiatives is undertaken on a selective and strategic basis, typically to escalate a concern we may have seen in an individual dialogue. While we do not have an extensive history of collaborating with others to bring our concerns to an investee company’s attention, our participation in collaborative initiatives has increased in the past two years. The primary vehicles we use for collaborative engagement are investor associations that have been established for such a purpose.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Description</th>
<th>Status</th>
<th>Joined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council of Institutional Investors (CII)</td>
<td>U.S. association of institutional investors, corporate issuers and asset managers</td>
<td>Associate Member</td>
<td>1989</td>
</tr>
<tr>
<td>Principles for Responsible Investment (PRI)</td>
<td>Global initiative for responsible investment</td>
<td>Signatory</td>
<td>2010</td>
</tr>
<tr>
<td>UK Stewardship Code</td>
<td>Public commitment to uphold stewardship principles for UK investors</td>
<td>Signatory</td>
<td>2010</td>
</tr>
<tr>
<td>Japan Stewardship Code</td>
<td>Public commitment to uphold stewardship principles for Japanese investors</td>
<td>Signatory</td>
<td>2014</td>
</tr>
<tr>
<td>Associacao Investidores no Mercado de Capitais (AMEC)</td>
<td>Association for minority investors in Brazil</td>
<td>Member</td>
<td>2015</td>
</tr>
<tr>
<td>Asia Corporate Governance Association (ACGA)</td>
<td>Pan-Asian association for institutional investors</td>
<td>Member</td>
<td>2016</td>
</tr>
<tr>
<td>UK Investor Forum</td>
<td>Collaborative engagement association for investors in UK companies</td>
<td>Founding Member</td>
<td>2016</td>
</tr>
<tr>
<td>Investor Stewardship Group (ISG)</td>
<td>Investors advocating for core governance principles for U.S. market participants</td>
<td>Founding Member</td>
<td>2017</td>
</tr>
<tr>
<td>Japan Stewardship Initiative</td>
<td>Investor forum for stewardship solutions and sharing of best practices</td>
<td>Founding Member</td>
<td>2019</td>
</tr>
<tr>
<td>Investment Association Climate Change Working Group</td>
<td>Group to direct the work of the UK investment management industry trade body in relation to climate change</td>
<td>Member</td>
<td>2020</td>
</tr>
<tr>
<td>Institutional Investors Group on Climate Change (IIGCC)</td>
<td>European membership body for investor collaboration climate change</td>
<td>Member</td>
<td>2020</td>
</tr>
<tr>
<td>Emerging Markets Investors Alliance</td>
<td>Organization that facilitates investor advocacy to improve policies and practices of governments and companies in the emerging markets</td>
<td>Member</td>
<td>2020</td>
</tr>
<tr>
<td>Task Force on Climate-related Financial Disclosures (TCFD)</td>
<td>The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information.</td>
<td>Supporter</td>
<td>2020</td>
</tr>
<tr>
<td>Responsible Investment Association Australasia (RIAA)</td>
<td>Champions responsible investing and a sustainable financial system in Australia and New Zealand.</td>
<td>Member</td>
<td>2020</td>
</tr>
<tr>
<td>FAIRR</td>
<td>A collaborative investor network that raises awareness of the ESG risks and opportunities caused by intensive animal production.</td>
<td>Member</td>
<td>2020</td>
</tr>
</tbody>
</table>
Examples of our participation in collaborative engagements

In 2020 we participated in four collaborative dialogues globally, one of which we sought to lead. Three of these were facilitated by the UK Investor Forum and one by the ACGA. All of these were selected as a way to escalate our concerns either alongside (in one case where the company was already involved in a serious public controversy) or after (three cases) direct engagement on governance issues showed a limited degree of success.

The value we draw from these initiatives is not limited to the opportunities for collective engagement. The research and speaker events provide valuable input to our analysis, both of a specific company or of the emerging policy landscape.

In addition we participated in 53 engagements in tandem with other investors. Such group meetings are a way for the company to communicate to multiple investors in a time-efficient manner.
Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.

We endeavour to select for our clients’ actively managed portfolios companies that can meet our expectations over the long term. Occasionally, however, we may conclude that a series of events or decisions on the part of a company’s management or board has reduced the probability that our investment in the company’s securities will generate the returns we expected. This tends to lead to the following escalation options being considered:

- Such conclusions may lead our portfolio managers to consider selling or reducing the position.
- In other instances, we may decide that an effort to engage the company in dialogue is a better alternative. As discussed under Principle 10, this may include participation in collective engagement if direct engagement has not been effective to date.
- On rare occasions we may decide to share our concerns via a public statement.
- As a last resort we will consider commencing legal action to recover shareholders’ funds when we believe that the Board has acted inappropriately or negligently.

We are most likely to seek to escalate an engagement rather than sell the position where:

- We own a substantial amount of the company’s share capital and we intend to remain long-term owners;
- We have general agreement amongst our portfolio managers as to the nature of the concern and its potential solutions; and
- We believe there is a reasonable probability that the company’s leadership will enter into constructive dialogue with us.

At T. Rowe Price, decisions to escalate a company dialogue are typically led by our portfolio managers with the assistance of our global investment analysts, our governance and responsible investment specialists, and our internal legal team.

Collective engagement as an escalation strategy

One of our escalation strategies is to look for the opportunity to join a collective engagement with the company, where we believe the dialogue will constructively raise issues of concern. As described under Principle 10, in 2020 we participated in three collective engagements facilitated by the UK Investor Forum. Their annual report lists the engagements completed in 2020, of which we participated in two; one is still ongoing.

To date we have not submitted a shareholder resolution at an investee company, but we would do so if we believed it was in the best interest of our clients.
Principle 12:
Signatories actively exercise their rights and responsibilities.

The overarching principle of T. Rowe Price’s voting policy is that decisions are made in light of the anticipated impact of the issue on the desirability of investing in the portfolio company. Proxies are voted solely in the interests of our clients and we manually review all votes.

Our starting point for voting is always the T. Rowe Price customised set of proxy voting guidelines. The guidelines are tailored to include regional/country norms. They are updated annually and disclosed on our website. In addition to our proxy voting guidelines, we rely on a company’s disclosures, its board’s recommendations, a company’s track record, country-specific codes of best practice, our external research providers and — most importantly — our investment professionals’ views as we make voting decisions.

Generally, we do not use the option to abstain on any voting items, except in a minority of cases. These cases may be where we do not have sufficient information to vote either for or against an item, or where an item has been withdrawn after the agenda has been issued.

**Example illustrating our use of abstention**

In the recent UK AGM season, a number of companies had an item on the agenda to approve the final dividend but decided not to pay it given the deterioration in market conditions between when the notice of meeting was published and the actual AGM. An example would be Ascential plc who chose to withdraw the resolution to pay their final dividend at their 6 May 2020 AGM. Under the circumstances, we felt Abstain was the most appropriate vote option on item 4.

In a very small number of cases, the Abstain vote option was used in the UK market in 2020 as a warning signal to UK companies with problematic pay practices. However, this was on a strictly exceptional basis as we believe we have an obligation to make an affirmative voting decision, either FOR or AGAINST each item contained in the proxy, wherever possible.

Across all markets, we endeavour to vote all proxies for which we are eligible to vote. An exception is in markets where voting would require that we block our clients’ shares from trading for a designated period of time. In most instances, we do not vote in share-blocking markets because we believe the potential risk of the temporary illiquidity exceeds the potential benefit of the proxy vote.

**Compliance with the UK Corporate Governance Code**

To date, we have not held a significant number of investments in UK companies that were both subject to the UK Corporate Governance Code and materially out of compliance with it. On the occasions where we may encounter this issue, we would discuss with the company its reasons for non-compliance in the period before its Annual General Meeting.

- If the reason for non-compliance is well explained and reasonable given the company’s unique circumstances, or if the non-compliance is seen as a temporary state, then we would be likely to support the company management at the AGM.

- If we are concerned that the stated reasons for non-compliance will lead to a misalignment of interests between company management and investors, then we are likely to oppose management on certain key voting items.
Principle 12: Directed voting

Separate account clients, i.e. those who have opted for a segregated mandate, may choose from three options:

- To retain voting authority for themselves
- To delegate voting authority to T. Rowe Price
- A hybrid option where they delegate voting authority to T. Rowe Price for the vast majority of meetings but retain voting authority at meetings of particular concern.

If the hybrid option is selected, company-specific voting instructions must be submitted to T. Rowe Price with ample advance notice before the voting deadline. The exact voting procedure for each client is subject to the terms of the Investment Management Agreement.

Communicating our voting decisions to companies

Where T. Rowe Price is a significant investor in a company and we are planning to vote against the board’s recommendation on one or more items, we generally disclose our voting intentions to the company in advance. The purpose of this dialogue, (as discussed under Principle 9) is to determine whether there are additional considerations or context that the board believes we should consider.

The circumstances under which we may not disclose our voting intentions in advance are (a) when the company does not respond to our outreach or does not exhibit interest in this discussion, or (b) when the company employs a third party such as a broker or proxy solicitor to collect feedback on our vote intentions. We do not disclose such information to third parties.

Vote reporting

Under U.S. securities regulation, the voting policies, procedures and decisions of T. Rowe Price’s U.S.-regulated mutual fund portfolios are required to be disclosed on an annual basis. The disclosures are updated on 31 August of each year, covering the date range of July of the prior year through June of the current year.

In addition, we publish a report for our clients each autumn, highlighting important corporate governance trends from the prior 12 months and aggregating our proxy voting decisions into categories. Upon their request, we also make available to our institutional clients a customised record of their portfolios’ voting activities. Because our holdings in the mutual funds largely mirror those of all clients’ accounts, we believe these reports sufficiently address the disclosure envisioned by this Code.

2020 Voting Summary

Key findings from the 2020 Aggregate Proxy Voting Summary (U.S. Mutual Funds) are:

- Overall we supported 91% of all proposals sponsored by management
- We supported 92% of all candidates nominated by the Board in an uncontested election. Where there have been contested elections, in 2020 we supported 37% of incumbent management candidates in proxy contests down from 56% previous year
- We support around 80% of pay plans and voted against 20% in the last year.
Principle 12: (continued)

The ESG Annual Report for 2020, which will be available in Q2 2021, will contain a similar analysis of our proxy voting decisions for the 2020 calendar year. Although this disclosure covers our activities in the 2020 calendar year, we wish to highlight two key changes for 2021 to our vote reporting:

- From Q1 2021 we will disclose each strategy’s full voting record semi-annually instead of annually. Vote disclosures for the first and second halves of each year will be posted 8 weeks after the period end.
- For the first time, we will provide not only vote decisions but rationales for key votes. These include votes against management, votes on shareholder proposals, and any other votes we deem controversial, illuminating, or significant.

Shareholder resolutions

We approach shareholder resolutions by assessing the materiality of the proposal. Our analysis considers company-specific circumstances, including the current level of disclosure. We are unlikely to support resolutions which are excessively prescriptive, or where we think the company is already taking action to address the stated concerns. There may also be cases where we disagree in principle with what the resolution is proposing.

The 2020 Aggregate Proxy Voting Summary describes our voting for different categories of shareholder resolution as at mid-2020. Our white paper, “For or Against? The Year in Shareholder Resolutions” notes that the T. Rowe Price portfolios voted on 1,431 shareholder resolutions across all markets in 2020. Of those, 500 were situations where shareholders were nominating directors to a company’s board. Another 585 were resolutions asking companies to adopt a specific corporate governance practice. 346 proposals specifically addressed environmental and social (E&S) issues within five distinct categories.

Shareholder Resolutions Voted on in 2020

Looking deeper into resolutions focusing on environmental and social issues

*Share-blocking is a requirement in certain markets that impose liquidity constraints in order to exercise voting rights. We generally do not vote in these markets. Figures may not total 100% due to rounding. As of December 31, 2020.

Source: T. Rowe Price.
A frequent question we receive from our investee companies is how and what they should report when it comes to environmental and social data. In terms of specific frameworks, we recommend using the Sustainability Accounting Standards Board (SASB) and Task Force on Climate-Related Financial Disclosure (TCFD). We also emphasize the importance of reporting carbon emissions and diversity statistics.

**Genuine Parts Company, April 2020 AGM**

At their AGM on 27 April 2020, the Genuine Parts Company, a US automotive distributor, received a shareholder resolution requesting it issue a workforce diversity report prepared in consideration of the metrics and guidelines set forth in the SASB Multiline and Specialty Retailers & Distributors standard’s provisions on workforce diversity and inclusion and labor practices requirements.

A key consideration when deciding how to vote on social issues is the company’s existing level of disclosure. We supported the diversity proposal because the company published no information on its workforce demographics, diversity and inclusion programs, or human capital management policies. The report (item 4) received 79% support from shareholders, including T. Rowe Price.

The documents below are available on our ESG site:

- **Proxy Voting Policies**: A detailed set of guidelines reflecting what we believe to be best practice on various corporate governance issues.
- **Proxy Voting Summary**: An annual analysis of our proxy voting trends, including a year-over-year comparison by category.
- **Responsible Investment Guidelines**: A detailed description of how we identify material ESG factors for the issuers we analyze for potential investment.
- **Engagement Policy**: Detailed guidance for companies seeking to engage with T. Rowe Price on ESG matters.
- **Our Philosophy on Shareholder Activism**: A detailed description of our policies on interaction with other investors in an activism context, and guidance for companies that are subjects of campaigns.
- **Voting Record**: A searchable database of our proxy voting records for the most recent reporting period. The vote rationale will be present for any votes against management or votes against the TRP Custom Policy for meetings on or after 1 July 2020.

The Proxy Voting Policies document also provides a detailed discussion of our use of proxy advisors. We are clients of one such advisor at this time: ISS. The services it provides range from vote execution and record keeping to research and recommendations. T. Rowe Price maintains a custom set of voting guidelines, which is administered with the assistance of ISS. Our fund managers, analysts, and corporate governance specialists actively monitor the votes pending in our portfolios and may decide to override our guidelines at any time with sufficient supporting rationale. In the absence of any other instructions, all eligible shares are voted in accordance with our custom guidelines.

**Significant votes**

The process we used to identify “most significant” votes in our initial disclosure to meet our reporting obligations under the revised EU Shareholder Rights Directive (SRD II) reflected the T. Rowe Price special operating procedures for any vote deemed particularly significant or “Critical” by the Head of Corporate Governance during 2019.
Principle 12: (continued)

However, we are currently reviewing our definition of significant votes to reflect the guidance from the PLSA (Pensions and Lifetime Savings Association), the feedback we receive from clients and how we see market practice developing. The votes chosen for the pilot set of disclosures under the PLSA template format are those where we had a significant holding, where the situation was particularly contentious or the vote illustrates a key aspect of our voting approach. The ten votes below are considered “most significant” for 2020.

Following an unsatisfactory engagement with the Lead Director of Alkermes plc at the May 2020 AGM we voted against the re-election of all incumbent directors and the pay resolutions to communicate to the Board that the underlying issues with performance and insider selling still have not been addressed. We held nearly 15% of the stock at that time.

Even in the most contentious situations, Portfolio Managers may differ in how they wish to express their concerns through voting.

In their voting at the April 2020 AGM of Textron, Inc., our Portfolio Managers concluded that management had allocated time and capital to an unsuccessful acquisition, failed to capitalize on opportunities to simplify and unlock value, and rewarded a flat operating profit for six years with higher compensation. Certain Portfolio Managers chose to express this by voting against the full Board except for one new director, while others chose to just vote against the members of the Compensation Committee. All Portfolio Managers voted against the say-on-pay. We held 15% of the stock at that time.

Our corporate governance dialogues in Japan have covered succession and capital allocation.

At the June 2020 AGM of Fujitec Co. Ltd, we voted against the re-election of the CEO to encourage the Board to undertake a review of strategy and performance with more urgency than they currently exhibit. We also supported two shareholder resolutions related to capital management filed by an activist. Given the company’s low revenue growth and suboptimal capital structure, there is a large valuation gap versus peers. We have engaged with Fujitec on three corporate governance topics, specifically the need for an external strategic review to improve operational efficiency, the need to improve capital allocation, and the need to lift governance standards across the business. We expressed our views directly to senior management through our investment team via a series of calls, then sent a letter to the Board of Directors.

We continue to assess all mergers, acquisitions and corporate restructurings on a case-by-case basis, based on the expected impact on shareholder value.

At the September and October 2020 meetings of Unilever NV and Unilever plc, we voted for the changes to the Anglo-Dutch Group’s corporate structure, which unified the current dual-parent holding company structure to create a single UK domiciled Unilever parent company. This simplification made it more straightforward to unlock value from future portfolio reviews.

We voted against the June 2020 delisting of Chinese online classifieds business 58.com as we believe the price offered by a consortium of insiders and private equity buyers was too low. Subsequently, we took part in a dissenters’ rights lawsuit in the Cayman Islands aimed at securing a fair price for this asset on behalf of our clients.
Principle 12: (continued)

We reflected the Board’s oversight of environmental, social and governance controversies in our voting decisions.

At the April 2020 AGM of The Boeing Company, some T. Rowe Price portfolios voted against four long-serving directors at the US aerospace company because of the Board’s apparent failure to exercise sufficient oversight of management strategy and corporate culture, which contributed to two fatal 737 MAX crashes. Other portfolios voted against two long-serving directors, demonstrating the range of views amongst our Portfolio Managers.

At the June 2020 AGM of South African Standard Bank Group, we voted against the Vice Chair, the most senior director standing for election, due to the company’s refusal to table certain climate change related shareholder proposals at the meeting. The company claimed it was not appropriate to put the resolutions on the ballot because “the matter in question must be one on which the shareholders are entitled to exercise voting rights. The proposed resolutions do not relate to matters on which shareholders are entitled to vote.” This was a curious judgement because at the 2019 AGM two such proposals were on the ballot, and one passed with majority support.

As discussed earlier in this section, 2020 saw a significant increase in our support for shareholder resolutions calling on companies to provide improved transparency around their political lobbying.

At the April 2020 AGM of Centene Corporation, we voted in support of the shareholder resolution on political contributions disclosure. We held over 10% of the issued share capital at that time, and the resolution passed with support from 51% of shareholders. Lobbying is a material topic in healthcare and the company’s disclosure lags behind peers.

Along with 53.5% of shareholders, we supported a resolution at the May 2020 AGM of Chevron Corporation which called on the company to report whether its climate-related lobbying is aligned with Paris Agreement goals. The proponents requested that the board evaluate whether there is any misalignment between Chevron’s direct and indirect lobbying activities regarding the Paris Agreement’s climate goals.

We also increased our support for shareholder resolutions calling for improved environmental disclosure.

In March 2020 environmental NGO Kiko Network submitted a proposal calling on Mizuho Financial Group to disclose a plan to align its investment activities with the goals of the Paris Agreement. This was the first climate-related shareholder resolution in Japan.

Mizuho has been a TCFD signatory since December 2017, but it did not publish its first TCFD Report until May 2020. While, it was positive to see the commitments made, we voted for the resolution at the June 2020 AGM to encourage the company to further improve its disclosure in future reporting cycles, along with 34.5% of shareholders.

Securities lending

We recognise the potential impact on proxy voting of securities lending programs. T. Rowe Price has only a limited lending program in place at this time, so there are exceedingly few occasions when it becomes necessary to consider recalling shares for purposes of voting. However, we have a monthly review process in place to identify such potential situations and recall or restrict securities from lending if necessary.
Appendix – ESG Team

**Donna F. Anderson** is the global head of Corporate Governance. Donna leads the firm’s proxy voting and engagement efforts and serves as a specialist for incorporating governance considerations into the firm’s investment research process. She is co-Chair of the ESG Committee, a member of the Valuation Committee, and a director of the T. Rowe Price Trust Company. She is a vice president of T. Rowe Price Group, Inc. Donna’s investment experience began in 1996, and she has been with T. Rowe Price since 2007, beginning in the U.S. Equity Division. Prior to this, Donna was employed by Invesco Funds as a director of research.

Donna earned a B.A. in foreign languages from Trinity University and an M.B.A. from the University of Texas at Austin. She also has earned the Chartered Financial Analyst® designation.

**Joseph Baldwin** is an associate analyst for the Responsible Investing team at T. Rowe Price. Joseph has 3.5 years of investment experience. Prior to joining the firm in 2018, he was an Investment Analyst with St. James’s Place Wealth Management, monitoring and engaging with external fund managers on their responsible investing approach. Joseph earned a B.A. in business finance from Durham University and is studying towards his CFA designation.

**Jocelyn Brown** is the Head of Governance, EMEA, and APAC of T. Rowe Price International Ltd. She is a Vice President of T. Rowe Price International Ltd and a member of the ESG Committee. Jocelyn’s investment experience began in 2008, and she has been with T. Rowe Price since 2020, beginning in the Governance department. Prior to this, Jocelyn was employed by the UK Railways Pension Scheme in Sustainable Ownership. Jocelyn earned an M.A. in History from the University of Cambridge and an M.B.A., with distinction, from Imperial College London.

**Maria Elena Drew** is a director of research for Responsible Investing at T. Rowe Price. In her current role, Ms. Drew leads the Responsible Investing team, which serves as specialists for incorporating environmental and social considerations into the firm’s research process.

Ms. Drew has 23 years of investment experience. Prior to joining the firm in 2017, she worked at Goldman Sachs Assets Management holding various roles during her tenure including portfolio manager, equity analyst and ESG specialist. Prior to joining Goldman Sachs Asset Management, Ms. Drew was the head of the natural resources team in the equity division at Putnam Investments and served as portfolio manager for the Global Natural Resources Fund.

Ms. Drew earned a B.A. in economics, with a minor in geology, from Smith College, Northampton, Massachusetts.

**Ashley Hogan** is an associate analyst for the Responsible Investing team at T. Rowe Price. Prior to this role, Ashley was a Business Analyst within the Global Technology department. Ashley joined T. Rowe Price in 2017 from the United States Department of Agriculture, where she was a Data Analyst. Ashley graduated cum laude from Texas Tech University with a Bachelor of Science: International Economics with Highest Honors. She is currently a CFA Level I candidate.

**Kara McCoy** is a governance analyst at T. Rowe Price. Prior to her current role, she was a senior manager in Post Trade Services, where she has played an integral role in proxy voting since 1999. Before that, Kara served as a group leader in the Equity Research Department, where she developed a keen understanding of the investment process and the fundamentals of corporate governance principles. Kara earned a B.A. in communications from Louisiana State University.

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Scott Petrie is an associate analyst for the Responsible Investing team at T. Rowe Price. Prior to this role, he was a Senior Portfolio Analyst in the Fixed Income Division both in London and Hong Kong. Scott has six years of investment experience, all of which have been at T. Rowe Price. Prior to joining the firm in 2014, he worked at Lloyd’s of London as an actuarial analyst and worked at Lloyds Banking Group in a similar role. Scott earned a B.Sc. (with honors) in mathematics and financial economics at the University of Dundee. He is a CFA charter holder.

Suha Read is a Business Manager for the Responsible Investing team at T. Rowe Price. Suha joined the firm in 2015 to start up an international RFP team, and transferred to the Responsible Investing team in 2019. Prior to joining T. Rowe Price, Suha held roles within marketing and distribution at Henderson and HSBC Alternative Investments and has 16 years of experience in the investment management industry. Suha earned a BSc (Hons) in Mathematics and Astronomy from University College London.

Iona Richardson is an associate analyst for the Responsible Investing team at T. Rowe Price covering international equities. Iona joined T. Rowe Price in October 2018 with 4 years of investment experience. Prior to joining the firm, Iona was an Associate in the Responsible Investments team at DWS, formerly Deutsche Asset Management. Iona earned a B.Sc. in pharmacology from the University of Bristol. She is a CFA charter holder and a certified (EFFAS) ESG analyst.

Duncan Scott is an associate analyst on the Responsible Investing team at T. Rowe Price. Duncan’s investment experience began in 2016, and he has been with T. Rowe Price since 2019. Prior to this, Duncan was employed by Deutsche Bank in the Equity Research department. Duncan earned a B.A. and an M.Sci., first class, in Natural Sciences from the University of Cambridge.

Christopher Whitehouse is an ESG specialist, focusing on the US SMID Universe. Prior to 2020, he was an investment analyst covering the European telecommunications and media sectors. Christopher is a vice president of T. Rowe Price Group, Inc. and T. Rowe Price International Ltd. He has 24 years of investment experience, 15 of which have been with T. Rowe Price. Prior to joining T. Rowe Price, he was a telecom analyst and fund manager at Deutsche Asset Management. Christopher earned a BSc with honors, in physics at Oxford University.

Kaoutar Yaiche is an Analyst on the Responsible Investing team at T. Rowe Price. Kaoutar joined T. Rowe Price in 2021 after completing her MBA at the Stanford Graduate School of Business. Prior to her MBA, Kaoutar worked at an Independent Power Producer developing utility-scale wind and solar farms in emerging markets. Subsequently, she worked at a cleantech startup focusing on distributed energy solutions, and later at a climate-focused venture capital firm. Kaoutar also holds a Master of Renewable Energy Engineering from the Ecole Nationale Superieure Des Mines.
For Further Information

Institutional investors or companies wishing to discuss T. Rowe Price’s activities under the UK Stewardship Code may contact the following:

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