



## QUARTERLY REVIEW

T. ROWE PRICE FUNDS OEIC

# Global Impact Credit Fund

As of 30 June 2024

### Our Investment Approach

- Security selection begins with issuers that have a clearly identified positive impact thesis aligned with at least one of our impact pillars—climate and resource impact, social equity and quality of life, and sustainable innovation and productivity
- The fund seeks to invest in companies that undertake business activities which address these pressure points, creating positive impact as a result.
- Impact pillars are aligned, but not anchored, to the United Nations Sustainable Development Goals (UN SDGs).
- Leverages impact and fundamental analysis undertaken by the global credit and RI research teams, combined with top down considerations, such as the macroeconomic outlook and relative value across credit sectors.

### Portfolio Construction

- All our impact investments are subject to rigorous fundamental research and analysis, focusing on the durability of the underlying business model, industry and management quality, and valuation. Impact analysis is performed on an inclusionary basis.
- Impact universe comprises issuers meeting at least one of four criteria for inclusion in the portfolio: majority of current revenues or profits are tied to at least one impact sub pillar, majority of projected revenues or profits in 10 years are tied to at least one impact sub pillar, bond proceeds are allocated to discrete environmental or social projects, or unique impact situation.
- We assess business activities and how they align to our three impact pillars and eight sub pillars aligned to the 17 UN SDGs
- Global portfolio of around 75 to 150 holdings, with risk exposure managed at both the individual issuer and portfolio level.
- Our investment process isn't limited to labelled debt. We look to a broad opportunity set, spanning across the corporate and credit universe to identify the highest impact-aligned issuers.

Inception Date of Fund	14 December 2021
Comparator Benchmark	Bloomberg Global Aggregate Credit Index Hedged GBP
Total Assets (all share classes) (GBP)	£ 37.1 million
Percent of Portfolio in Cash	1.9%
Base Currency of Fund	GBP

## INVESTMENT OBJECTIVE

To have a positive impact on the environment and society whilst at the same time seeking to increase the value of its shares through both growth in the value of, and income from, its investments over a full market cycle (a minimum of 5 years).

## INVESTMENT PROCESS

The investment approach of the fund inherently looks to identify companies that align the interests of their bondholders, wider society, and the environment. Positive impact on the environment and society is targeted by aligning the fund's investments with companies that are working to address the world's major social and environmental challenges. Specifically, the fund seeks to invest in companies' that undertake business activities which address these pressure points, creating positive impact as a result.

Each company selected for inclusion in the fund's portfolio has current or future business activities that are expected to generate a material and measurable positive impact under one of the three impact pillars listed below: climate and resource impact; social equity and quality of life; and sustainable innovation and productivity. In addition, the investment manager will invest in use of proceeds bonds, including green; social; and sustainability bonds where proceeds are dedicated to financing environmental or social projects aligned with our impact pillars. Use-of-proceeds bonds will be analysed through T. Rowe Price's in-house proprietary ESG-labelled bond framework, which assesses the issuer's ESG's profile, sustainable finance framework, use of proceeds, and post-issuance reporting.

All the security selection decisions taken by the investment manager begin with a multi-layered process to identify companies which have positive impact potential. This analysis is complemented with the proactive and systematic integration of a wider range of ESG considerations, before the investment manager identifies the fundamental investment case for an issuer, which must lead to an expectation of positive financial returns.

The investment manager has built the capability in fundamental and responsible investment. The investment manager collaborates with the dedicated ESG specialists and fundamental analysts in order to produce the rounded view of companies that is essential as the fund pursues positive impact, in tandem with growth in the value of, and income from, its investments.

**PERFORMANCE**

(NAV, total return)

	Inception Date	Three Months	One Year	Since Class Inception Cumulative	
				Fund	Comparator Benchmark
Class C Acc	14 Dec 2021	0.54%	6.28%	-9.24%	-9.11%
Class C Acc 9	14 Dec 2021	0.56%	6.37%	-9.06%	-9.11%

**Comparator Benchmark**

Bloomberg Global Aggregate Credit Index  
Hedged GBP

0.09%      5.18%

Investors may use the benchmark to compare the fund's performance. The benchmark has been selected because it is similar to the investment universe used by the investment manager and therefore acts as an appropriate comparator.

The investment manager is not constrained by any country, sector and/ or individual security weightings relative to the benchmark and has complete freedom to invest in securities that do not form part of the benchmark.

**Past performance is not a reliable indicator of future performance.**

Source for performance: T. Rowe Price. Fund performance is calculated using the official NAV with dividends reinvested, if any. The value of the investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the fund and the subscription currency, if different. Sales charges, taxes and other locally applied costs have not been deducted and if applicable, they will reduce the performance figures.

Where the base currency of the fund differs from the share class currency, exchange rate movements may affect returns.

Hedged share classes (denoted by 'h') utilise investment techniques to mitigate currency risk between the underlying investment currency(ies) of the fund and the currency of the hedged share class. The costs of doing so will be borne by the share class and there is no guarantee that such hedging will be effective.

Index returns are shown with gross income reinvested.

Index returns are calculated in US Dollars and converted to GBP using an exchange rate determined by an independent third party.

The manager is not constrained by the fund's benchmark, which is used for performance comparison purposes only

For sourcing information, please see Additional Disclosures.

**CALENDAR YEAR PERFORMANCE**

	Inception Date	2022	2023
Class C	14 Dec 2021	-15.23%	7.20%
Class C Acc 9	14 Dec 2021	-15.16%	7.28%
<b>Comparator Benchmark:</b>			
Bloomberg Global Aggregate Credit Index		-15.34%	7.64%
Hedged GBP			

**KEY FUND RISKS**

**ABS and MBS** - Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS) may be subject to greater liquidity, credit, default and interest rate risk compared to other bonds. They are often exposed to extension and prepayment risk. **Contingent convertible bond** - Contingent Convertible Bonds may be subject to additional risks linked to: capital structure inversion, trigger levels, coupon cancellations, call extensions, yield/valuation, conversions, write downs, industry concentration and liquidity, among others. **Convertible bond** - Convertible bonds contain an embedded equity option which exposes them to risks linked to equity as well as fixed income. They may be subject to higher market and liquidity risk. **Credit** - Credit risk arises when an issuer's financial health deteriorates and/or it fails to fulfill its financial obligations to the fund. **Default** - Default risk may occur if the issuers of certain bonds become unable or unwilling to make payments on their bonds. **Derivative** - Derivatives may be used to create leverage which could expose the fund to higher volatility and/or losses that are significantly greater than the cost of the derivative. **Distressed or defaulted debt** - Distressed or defaulted debt securities may bear substantially higher degree of risks linked to recovery, liquidity and valuation. **Emerging markets** - Emerging markets are less established than developed markets and therefore involve higher risks. **ESG** - ESG integration as well as events may result in a material negative impact on the value of an investment and performance of the fund. **Geographic concentration** - Geographic concentration risk may result in performance being more strongly affected by any social, political, economic, environmental or market conditions affecting those countries or regions in which the fund's assets are concentrated. **Hedging** - Hedging measures involve costs and may work imperfectly, may not be feasible at times, or may fail completely. **High yield bond** - High yield debt securities are generally subject to greater risk of issuer debt restructuring or default, higher liquidity risk and greater sensitivity to market conditions. **Interest rate** - Interest rate risk is the potential for losses in fixed-income investments as a result of unexpected changes in interest rates. **Liquidity** - Liquidity risk may result in securities becoming hard to value or trade within a desired timeframe at a fair price. **Prepayment and extension** - Mortgage- and asset-backed securities could increase the fund's sensitivity to unexpected changes in interest rates. **Sustainability** - Funds that seek to promote environmental and/or social characteristics may not or only partially succeed in doing so.

**GENERAL FUND RISKS**

**General fund risks - to be read in conjunction with the fund specific risks above.** **Conflicts of Interest** - The investment manager's obligations to a fund may potentially conflict with its obligations to other investment portfolios it manages. **Counterparty** - Counterparty risk may materialise if an entity with which the fund does business becomes unwilling or unable to meet its obligations to the fund. **Custody** - In the event that the depository and/or custodian becomes insolvent or otherwise fails, there may be a risk of loss or delay in return of certain fund's assets. **Cybersecurity** - The fund may be subject to operational and information security risks resulting from breaches in cybersecurity of the digital information systems of the fund or its third-party service providers. **Inflation** - Inflation may erode the value of the fund and its investments in real terms. **Investment fund** - Investing in funds involves certain risks an investor would not face if investing in markets directly. **Management** - Management risk may result in potential conflicts of interest relating to the obligations of the investment manager. **Market Liquidity** - In extreme market conditions it may be difficult to sell the fund's securities and it may not be possible to redeem shares at short notice. **Market** - Market risk may subject the fund to experience losses caused by unexpected changes in a wide variety of factors. **Operational** - Operational risk may cause losses as a result of incidents caused by people, systems, and/or processes.

## THOUGHTS FROM THE INVESTMENT TEAM

Looking back at the first half of 2024, the continued development, diversification, and innovation in the impact investing landscape is striking. With the United Nations' Sustainable Development Goal (SDGs) still underinvested, this is going to be crucial in ensuring the financing needed to ensure sustainable and inclusive economic growth and prosperity. It is in this context that blue bonds and blue finance have become such an important focus for us, given the underfunding of SDG 14, Life below water.

To date, as well as investing in select blue bond transactions, T. Rowe Price has also launched a dedicated blue bond investment vehicle, focused on directing capital to blue economy projects in emerging markets. Given the current financing gap, coupled with investor demand, we are optimistic on the future prospects of the blue bond market from both an impact and financial return perspective.

Blue bonds are a prime example of the growing diversity, continual evolution, and innovation, which makes impact investing so compelling and exciting to be involved in.

We are seeing ongoing developments in structured outcome bonds led by the International Bank for Reconstruction and Development (IBRD), an organization with which we are building an increasingly close and fruitful partnership. Earlier this year, we supported the launch of the IBRD's Plastic Waste Reduction Bond, which will link financial returns to plastic waste reduction in Ghana and Indonesia, where plastic pollution is an acute issue.

This follows the IBRD's Wildlife Conservation Bond in 2022, which we were also closely involved with, and is thus far delivering positive outcomes in conserving South Africa's black rhinoceros population and is on track to provide an attractive pay out to bondholders. We expect the IBRD to launch similarly innovative outcome-linked bonds in the future. Added to this, we have purchased our first sovereign impact bond, a social bond issued by Chile, and in the quarter just finished, we added a securitized bond from Fannie Mae following a significant engagement with the issuer.

We continued to find opportunities in emerging markets, and in the late stages of the quarter purchased a new issue from a South American bank at a particularly attractive yield. Emerging market banks play a vital role in driving financial inclusion and financing the low-carbon transition, and within the portfolio these opportunities are helping to maintain an attractive overall yield profile relative to the wider market, offering the prospect of attractive financial returns. The breadth and depth of our research platform is invaluable in continuing to identify and underwriting these exciting opportunities.

### PERFORMANCE

The fund produced a modest positive absolute return and outperformed the index over the three months ended June 30, 2024. Security selection underpinned this, particularly in renewable energy, as the Chilean company Sociedad de Transmision's green bond contributed, as did Terraform, a U.S.-based solar and wind power company operating in North America and Western Europe. Selection was also effective in banking where holdings in Central and Eastern Europe, Latin America, and Asia added value. A range of other positions also contributed, including Smurfit Kappa, a UK-based paper products company, and Mueller Water, a manufacturer and distributor of water infrastructure products in the U.S.

Asset allocation had a neutral impact overall. A positive impact from our modest off-benchmark exposure to securitized credit was canceled out by the effect of our overweight exposure to consumer cyclical and underweight to banking.

### MARKET OUTLOOK

We hold a positive outlook for global growth in the near term, and while some reflation concerns do persist, we expect disinflation to resume its bumpy path downward. We think investors' expectations for U.S. interest rate cuts remain somewhat elevated, though have tempered from where they were in the beginning of the second quarter.

In Europe, we see economic activity data improving in the near term, with the recent softness likely due to political events weighing on confidence although the outlook for growth in China remains negative, particularly given underwhelming stimulus from the authorities.

In credit, tight U.S. spreads do limit upside potential in parts of the market, but we don't see a catalyst for materially wider spreads in the near term given the economy remains resilient and the Fed is looking to ease policy. Liquidity is perhaps one area that requires close monitoring. Banks are broadly in a much stronger fundamental position than they were a year ago, but are nearing the lowest comfortable level of reserves, that, combined with heavy Treasury issuance that dealers need to absorb, could erode liquidity conditions.

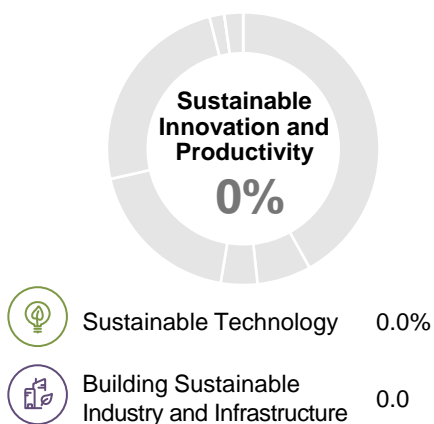
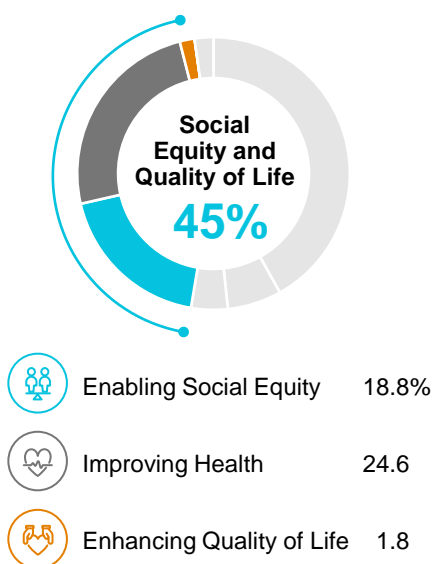
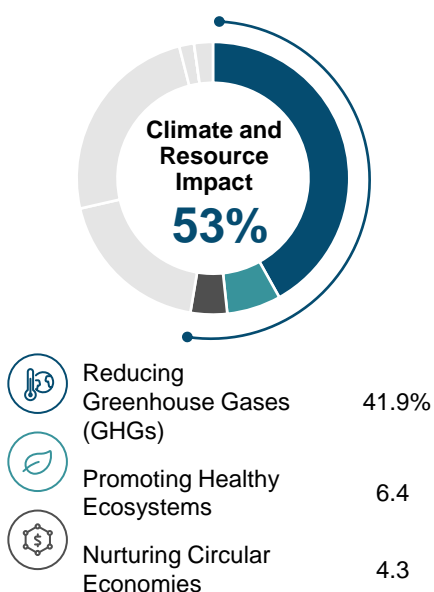
The approaching U.S. election also creates policy uncertainty that could negatively affect investor sentiment, along with ongoing geopolitical risks and the continued fallout from the French election and political uncertainty in Europe.

Overall, while the macro backdrop is notably varied, replete with idiosyncratic political risk, and uncertainty as to the trajectory of monetary policy, the key factor for credit is that the growth backdrop remains supportive, as do corporate fundamentals, on the whole. The potential for further moderate volatility could play well for active managers particularly combined with existing dispersions across yield curves, currencies, and sectors.

In this environment, we would expect to continue to find opportunities to generate efficient carry and add value through sector and security selection. Concurrently, attractive all-in yields represent a meaningful technical tailwind to the market, sustaining ample levels of demand for corporate bonds.

## PORTFOLIO HOLDINGS BY IMPACT SUB-PILLAR

As of 30 June 2024

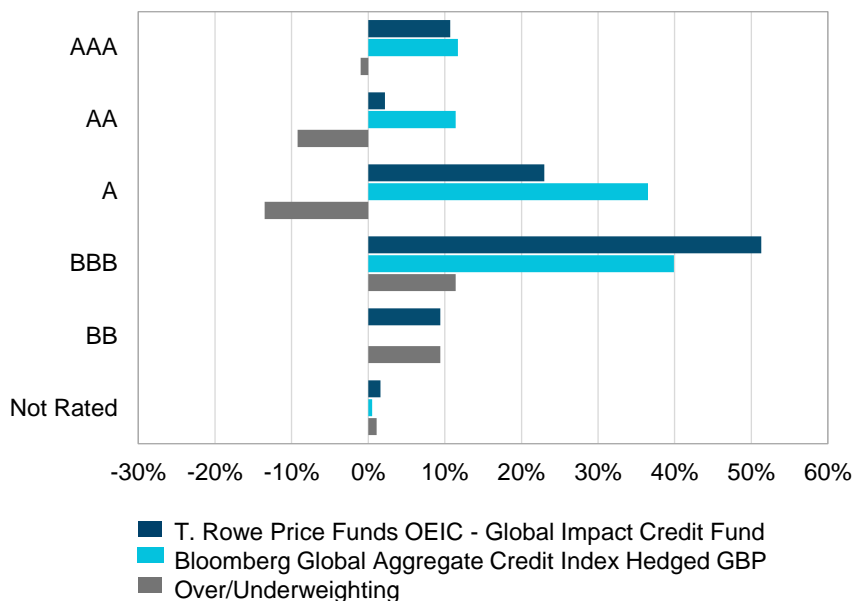


## CREDIT QUALITY AND REGION POSITIONING

### T. Rowe Price Funds OEIC Global Impact Credit Fund vs. Bloomberg Global Aggregate Credit Index Hedged GBP

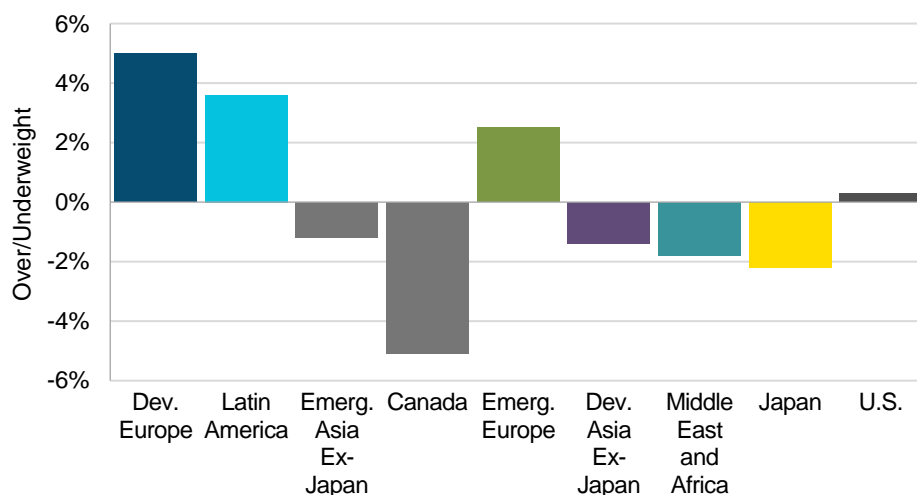
#### CREDIT QUALITY WEIGHTS

As of 30 June 2024



#### RELATIVE REGION WEIGHTS VS. BLOOMBERG GLOBAL AGGREGATE CREDIT INDEX HEDGED GBP

As of 30 June 2024



Investors may use the benchmark to compare the fund's performance. The benchmark has been selected because it is similar to the investment universe used by the investment manager and therefore acts as an appropriate comparator.

The investment manager is not constrained by any country, sector and/or individual security weightings relative to the benchmark and has complete freedom to invest in securities that do not form part of the benchmark.

Numbers may not total due to rounding.

Cash weight was 2.23% as of 30 June 2024.

Source: T. Rowe Price uses a proprietary custom structure for impact pillar and sub-pillar classification. Credit ratings for the securities held in the fund are provided by Moody's, Standard & Poor's and Fitch and are converted to the Standard & Poor's nomenclature. A rating of "AAA" represents the highest-rated securities, and a rating of "D" represents the lowest-rated securities. When a rating is available from all three agencies, the median rating is used. If there are two ratings, the lower rating is used and if only one rating is available, that rating is used. If a rating is not available, the security is classified as Not Rated (NR). The rating of the underlying investment vehicle is used to determine the creditworthiness of credit default swaps and sovereign securities. The fund is not rated by any agency. U.S. Government Agency securities, if any, may include conventional pass-through securities and collateralized mortgage obligations. This category may include rated and unrated securities.

## 10 LARGEST ISSUES

### T. Rowe Price Funds OEIC - Global Impact Credit Fund

As of 30 June 2024

Security	MV%	Impact Thesis	Impact Pillar	Sub-Pillar	KPI	Primary UN SDG
Healthpeak 1.35% 2027	1.2%	Proceeds from Healthpeak's green bond are invested in the construction, maintenance, and refurbishment of green buildings that have exceptional green building certifications. This provides a meaningful and measurable CO2 reduction and advances efficient use of resources in healthcare real estate.	Climate & Resource Impact	Reducing GHGs	13,893 m3 water saved	
Inter-American Development Bank 3.5% 2029	1.2	Inter-American Development Bank is the leading development institution in Latin America and the Caribbean. The IDB, in partnership with its member countries, works to reduce poverty and inequalities in Latin America and the Caribbean by promoting economic and social development in a sustainable, climate friendly way.	Climate & Resource Impact	Promoting healthy ecosystems	708,333 people provided access to safe drinking water	
Infineon Tech 1.625%, 2029	1.0	Infineon's position in power semiconductors supports electrification and improved energy efficiency into end markets such as autos, home appliances, industrial, smart buildings, and data centers.	Climate & Resource Impact	Reducing GHGs	100,000,000 GHG emissions avoided	
Aptiv 3.1%, 2051	1.0	Aptiv manufactures innovative products that contribute to electric vehicles and charging infrastructure, promote electrification and energy efficiency in vehicles and industry, and provide safety solutions.	Sustainable Innovation & Technology	Sustainable technology	100,000,000 GHG emissions avoided	
CVS Health 5.625%, 2053	1.0	CVS delivers impact through a) the company's health care benefits division and b) pharmacy & other healthcare services offered through its retail/LTC business.	Social Equity & Quality of Life	Improving health	24,396,000 medical memberships	
Council of Europe 2.875%, 2030	1.0	Council of Europe Development Bank is a multilateral development bank that promotes social cohesion in Europe through the provision of financing and technical expertise for projects with a high social impact in its member states. It participates in financing social projects, responds to emergency situations and contributes to improving the living conditions of the most vulnerable population groups.	Social Equity & Quality of Life	Improving health	461,200,000 Students educated	
San Diego Gas & Electric 2.95%, 2051	1.0	San Diego Gas & Electric's sustainability bond will support climate change adaptation through infrastructure and grid hardening; investment in clean energy infrastructure, including green hydrogen, renewable natural gas, and energy storage; and expenditures related to supplier diversity programs.	Climate & Resource Impact	Reducing GHGs	204 EV charging stations installed	
IBRD 1.125% 2028	1.0	The IBRD bonds support the financing of a combination of green and social, i.e. "sustainable development", projects, programs, and activities in IBRD member countries. Each project is designed intentionally to achieve both positive social and environmental impacts and outcomes in line with the WBG's twin goals of eliminating extreme poverty and promoting shared prosperity.	Social Equity & Quality of Life	Enabling social equity	3.5 million people with improved living conditions	
Ceska Sporitelna 5.737%, 2028	1.0	Ceska Sporitelna is driving financial inclusion with retail and SME lending accounting for 74.6% of CS's loan book, with presence predominately in Czech Republic. By enabling access to finance for individuals, families and SMEs, Ceska Sporitelna contributes to reducing the financing barriers to underbanked groups and further supports employment generation globally.	Social Equity & Quality of Life	Enabling social equity	529,900,000,000 CZK retail loans	
European Investment Bank 2.75%, 2028	0.9	EIB's Climate Awareness Bond (CAB) proceeds are allocated to activities that substantially contribute to climate change mitigation. Activities include renewable energy, energy efficiency, electric rail infrastructure and rolling stock and electric buses, and research, development and deployment of innovative low-carbon technologies.	Climate & Resource Impact	Reducing GHGs	Energy saved – awaiting post issuance reporting	

Issues are as of the date indicated and are subject to change.

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the OEIC sub-fund, and no assumptions should be made that the securities identified and discussed were or will be profitable.

Source: T. Rowe Price uses a proprietary custom structure for impact pillar and sub-pillar classification. Impact thesis sourced from T. Rowe Price.

<http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

## PORTFOLIO POSITIONING AND ACTIVITY

Our investment approach aligns with the United Nations Sustainable Development Goals by evaluating impact across three pillars and eight sub-pillars that encompass: (1) Climate and Resource Impact, (2) Social Equity and Quality of Life, and (3) Sustainable Innovation and Productivity.

At the end of the second quarter, we remained heavily weighted toward the Climate and Resource Impact (53%) impact pillar, and have increased this exposure over the quarter, and Social Equity and Quality of Life (45%) impact pillar, which was unchanged. The overall bias to these two pillars is likely to persist, as they offer the highest degree of direct, positive impact. While our SDG alignment continues to favor #3 (Good Health and Well-Being) and #7 (Affordable and Clean Energy), we are continually looking to diversify our SDG alignment.

The vast majority of holdings within the Climate and Resource Impact segment sit within our Reducing Greenhouse Gases sub-pillar, including companies such as Alexandria Real Estate and Southern California Edison. We also hold allocations to our other climate-focused sub-pillars, which are Nurturing Circular Economies and Promoting Healthy Ecosystems.

Within the Social Equity and Quality of Life pillar, we have three sub-pillars, with the Improving Health subsegment holding the majority of our positions. Here, we seek companies within the health care ecosystem that are improving the pace of innovation, increasing access to low-cost health care, or meaningfully changing patient outcomes, including not-for-profit pediatric hospitals and companies contributing to the acceleration and improvement of health care provision, including for underserved communities. Elsewhere in this pillar, we have a slightly smaller presence in the Enabling Social Equity sub-pillar, predominantly focused on holdings in banking and finance; in companies and projects promoting financial inclusion through affordable housing, microfinance, and small and medium-sized enterprise lending; and in companies providing credit access to underserved populations, such as Spain's Caixabank. Other issuers enabling social equity include those providing education and job training to minority populations and those improving digital connectivity across rural communities.

We realigned our exposure to the Sustainable Innovation and Productivity pillar, meaning we now have 0% alignment here. This pillar, which is set up to catch more of the enablers of impact (for example green semiconductors), will naturally always be lower than the first two pillars.

Around 57% of the portfolio is focused on environmental, social, and governance use-of-proceeds bonds, which are funding discrete and targeted environmental and social projects. The balance sits in high-impact, non-labeled bonds.

In terms of activity in the quarter, it's worth noting that the Global Impact Credit Strategy is a relatively low-turnover strategy given our belief that impact outcomes take time to capture, necessitating patience and resilience. We continued to find new, innovative, high-impact, but also high-alpha potential investments. On the buy side, we added new positions across a variety of industries, regions, and impact themes.

One notable addition was Fannie Mae's newest social bond which we participated in as at the start of June, increasing our securitized credit exposure in the portfolio. On the impact side of the dual mandate, the bond helps direct capital to support housing challenges, targeting the underserved populations in the U.S. which usually face barriers to obtaining affordable housing or access to credit. Upon completing our impact analysis of the bond, we are confident in Fannie Mae's thoughtful approach and remain assured that the proceeds are being efficiently allocated to target populations, generating improved outcomes for both target populations and investors, as well as enabling us to share tangible metrics of social impact in U.S. housing with clients. T. Rowe Price was a key contributor and collaborator with Fannie Mae around the design of its social bond framework. So much so, we were quoted in the draft [press release here](#). Our engagement with Fannie Mae offers a further proof point of our diligent impact analysis nature and our ability to drive true additionality for our clients through engaging with our issuers.

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the OEIC sub-fund, and no assumptions should be made that the securities identified and discussed were or will be profitable.

Source: T. Rowe Price uses a proprietary custom structure for impact pillar and sub-pillar classification. Impact thesis sourced from T. Rowe Price. <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

## ENGAGEMENT COMMENTARY

The following examples are not meant to be representative of every engagement held, but to illustrate the types of environmental, social, and governance (ESG) engagements we are having with the managements of our investment companies.

### MercadoLibre – Environment

MercadoLibre is a large online trading platform in Latin America and a leader in e-commerce.

#### Engagement Objective

We engaged with the company on its climate strategy.

#### Engagement Outcome

We engaged with MercadoLibre on its climate strategy, including its net zero aspirations.

The company's climate risk management plan includes stress tests and climate scenarios linked to possible impacts on its logistics operations. It currently has no climate-related policy, but discussions are ongoing. While there is no available incremental disclosure related to projects that enhance climate resilience, there are other initiatives underway, such as purchasing renewable energy in Brazil and Mexico (which comprise 50% of logistical operations). There are a few obstacles in the transition to electric vehicles (EVs), however. The company is not sure if it will be able to get to 100% electric transportation. Securing supply of EVs and installing their own charging networks with their own capital expenditure are the main obstacles. At present, MercadoLibre is looking at using biofuels for larger trucks.

While the company has not set public net zero targets, it has been collaborating with the Science Based Targets initiative (SBTi) for a little over a year. The methodology for e-commerce logistics does not yet exist, which is a similar rationale that leading rivals provide for not establishing science-based targets. MercadoLibre has set internal targets for business units that it may disclose.

The company provided the latest updates of its sustainability strategy and was receptive to our feedback to provide more disclosure related to its climate strategy, EV adoption, and progress in setting emissions reduction targets.

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<sup>1</sup>Scope 1 (direct emissions from owned or controlled sources); Scope 2 (indirect emissions from the generation of purchased electricity, steam, or cooling); Scope 3 (all other indirect emissions).

<sup>2</sup>Intensity targets set out emissions relative to some sort of economic output such as revenue, while absolute targets refer to the total amount of emissions being emitted.

## ENGAGEMENT COMMENTARY—CONTINUED

The following examples are not meant to be representative of every engagement held, but to illustrate the types of environmental, social, and governance (ESG) engagements we are having with the managements of our investment companies.

### Orsted – Environment

Orsted is a developer and operator of offshore wind power generation, operating in the UK, Germany, Denmark, and the U.S.

#### Engagement Objective

We engaged with the company for a discussion focused on blue/green financing, biodiversity, and climate strategy.

#### Engagement Outcome

We discussed blue and green financing and disclosures around this. Regarding its outstanding blue bond (issued in 2023), Orsted expects to allocate 60% towards marine biodiversity projects and 40% to sustainable shipping. It aims (and is on track) to fully allocate the proceeds within three years of issuance, with the majority allocated in the first year. The company intends to publish its blue bond allocation and impact report in May 2024, and it is currently working to gather the relevant data and decide on the best metrics or key performance indicators to include. However, this blue bond is likely to be a one-off for the time being. Orsted expects to focus more on green issuance in the future, as this is better-aligned with its business model. The blue bond has helped Orsted better understand the market and investor appetite for blue financing. The company also confirmed that its impact metrics were externally audited for its 2023 annual report, including the estimated figure for groupwide greenhouse emissions avoided.

We also discussed biodiversity and water. In addition to its blue bond, Orsted has an ambition to have a net positive biodiversity impact for all new renewable energy projects from 2030. This would follow a hierarchy of avoidance, mitigation, compensation, and restoration. The company walked us through some concrete examples of projects it is working on, such as growing corals on the foundations of an offshore wind project. Orsted was an early adopter of the Taskforce on Nature-related Financial Disclosures (TNFD) recommendations and its annual report this year includes a TNFD disclosure matrix. The company also has a target to reduce freshwater intensity 40% by the end of 2025. Freshwater only makes up a very small part of overall water usage, with the vast majority being seawater.

Finally, we discussed climate strategy. Orsted aims to reduce Scope 1-2 emissions intensity 99% by 2030, driven primarily by planned closure of its remaining three coal stations, alongside continued rollout of renewable energy projects. It expects its coal units to close by August 2024, and there is no expectation that this will be delayed. Regarding its updated renewable capacity target of 35-38 GW by 2030, the main risk that Orsted sees to this is governments not running enough renewables auctions. However, it is confident in its current pipeline and sees sizeable and attractive opportunities across multiple markets. Biomass currently accounts for 20% of heat and power generation volume in 2023, but this is a legacy business and should not expect to see any growth here. Orsted feels confident in its sourcing strategy for sustainable biomass and stressed that its inputs are all waste by-products (e.g., sawdust) from the forestry/timber industry that have no other uses. It has very detailed policies related to biomass sourcing which suppliers must follow. On Scope 3, natural gas sales are the largest part of this. Again, this is a legacy business and the volumes of gas sold and traded will reduce over time and is expected to reach net zero on Scope 3 by 2040. This is aligned with the Science Based Targets initiative net zero pathway for the industry.

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<sup>1</sup>Scope 1 (direct emissions from owned or controlled sources); Scope 2 (indirect emissions from the generation of purchased electricity, steam, or cooling); Scope 3 (all other indirect emissions).

## ADDITIONAL DISCLOSURES

Source for MSCI data: MSCI. MSCI and its affiliates and third party sources and providers (collectively, "MSCI") makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. Historical MSCI data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

Index returns shown with reinvestment of dividends after the deduction of withholding taxes.

The manager's views and portfolio holdings are historical and subject to change

T. Rowe Price uses a proprietary custom structure for impact pillar and sub-pillar classification.

T. Rowe Price uses the current MSCI/S&P Global Industry Classification Standard (GICS) for sector and industry reporting. T. Rowe Price will adhere to all future updates to GICS for prospective reporting.

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