



T.RowePrice

T. ROWE PRICE FUNDS SICAV

## China Evolution Equity Fund – ESG Report

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

As at 31 December 2023

### ESG INTEGRATION APPROACH

- The China Evolution Equity Fund uses ESG integration as part of its investment process. This means incorporating environmental, social, and governance factors to enhance investment decisions. Our philosophy is that ESG factors are a component of the investment decision, meaning that they are not the sole driver of an investment decision nor are they considered separately from more traditional analysis.
- The process of ESG integration takes place on two levels: first, with our research analysts as they incorporate ESG factors into company valuations and ratings, and second, with the portfolio manager as he balances these ESG factor exposures at the portfolio level. Both the analysts and the portfolio manager are able to leverage dedicated, in-house resources to assist in analyzing ESG criteria.
- Our ESG specialist teams provide investment research on ESG issues at the company level and on thematic topics. Additionally, they have built tools to help proactively and systematically analyze the environmental, social, and governance factors that could impact our investments. The foundation of the analysis is a proprietary flagging tool called the Responsible Investing Indicator Model (RIIM). It covers over 15,000 companies and pulls from data sets that are not in the wheelhouse of traditional financial analysis. These data sets include:
  - ESG performance data (e.g., number of accidents, carbon emissions, strength of whistle-blower programs, etc.);
  - ESG targets (e.g., plans to reduce carbon emissions, increase diversity, etc.)
  - ESG incidents and controversies (e.g., environmental fines paid, local community controversies/protests against a company, etc.)
- Environmental, social, and governance factors are an important part of our process. While they do not drive our process, as we do not screen companies for ESG factors and exclude those that screen poorly, a consideration of ESG factors helps us to assess the quality of the company and its management team and to identify potential ESG-related risks to our investment thesis.

**INVESTMENT OBJECTIVE:** To increase the value of its shares, over the long term, through growth in the value of its investments.

**INVESTMENT PROCESS:** The fund is actively managed and invests mainly in a diversified portfolio of shares of Chinese companies and may have significant exposure to smaller capitalisation companies. The fund may use derivatives for hedging and efficient portfolio management. For full investment objective and policy details refer to the prospectus. The manager is not constrained by the fund's benchmark, which is used for performance comparison purposes only.

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## RECENT COMPANY ENGAGEMENTS

We maintain a regular dialogue with the management teams of companies represented across the portfolio. Our investment-driven engagement program frequently identifies targets through our proprietary RIIM analysis, governance screening and analysts' fundamental research. While we engage with companies in a variety of different contexts, ESG engagement focuses on learning about, encouraging or exchanging perspectives on the environmental practices, corporate governance or social issues affecting their business.

While most of the meetings we hold with company managements will include some discussion of ESG topics, we differentiate meetings held with a heavy focus on ESG, meaning ESG issues were the sole items on the agenda or made up a meaningful part of the meeting. Agenda items are classified as "meaningful" when they take up a significant portion of the meeting or are a significant factor in the investment case.

The following are selected examples of recent engagements with companies held in or considered for the portfolio. The examples are not meant to be representative of every engagement held, but to illustrate the types of ESG engagements we are having with the managements of our investment companies.

## Yangzijiang Shipbuilding (4<sup>th</sup> Quarter 2023 Engagement)

<b>Focus</b>	Environment
<b>Company Description</b>	Yangzijiang Shipbuilding (Yangzijiang) is a Chinese shipbuilder, listed in Singapore.
<b>Engagement Objective</b>	We engaged with Yangzijiang to discuss disclosure, decarbonization, and net zero.
<b>Participants</b>	From Yangzijiang: Investor Relations Representative, ESG Representatives From T. Rowe Price: Responsible Investing Analysts
<b>Engagement Outcome</b>	<p>We engaged with Yangzijiang to discuss its ESG disclosure and decarbonization and net zero plans.</p> <p>Yangzijiang is in the process of further developing its ESG disclosure. Currently, the company reports against the Global Reporting Initiative, a framework for sustainability reporting. It is working to start reporting against the Task Force on Climate-Related Financial Disclosures (TCFD) in 2024/2025 to comply with the mandatory sustainability reporting requirements of the Singapore stock exchange.</p> <p>The company has set up a 2023-2030 ESG roadmap which is split into a 'Green Vessel Strategy' focused on building dual-fuel liquified natural gas (LNG)/methanol/ammonia ships (about 30% of its orderbook at the end of 2022), and a 'Green Factory Strategy' centered on renewables, electrification, and energy storage at the shipbuilding site. It is also working to set a medium-term decarbonization target; this is expected to be in line with the latest International Maritime Organization decarbonization guidelines but is unlikely to align to a net zero pathway given limited availability of alternative fuels, bunkering infrastructure, and green steel supplies in global marine shipping. Given these challenges, the company will not set a long-term net zero goal for the time being and will rather focus on achieving something in the medium term. Yangzijiang is also working to disclose its scope 3<sup>1</sup> emissions next year.</p> <p>We briefly discussed biodiversity and blue bonds. While new topics for the firm, Yangzijiang is interested in expanding biodiversity related disclosures in line with the latest Task Force on Nature-Related Financial Disclosures (TNFD) and understanding the dynamics of the blue bond market (albeit having limited liquidity needs in the next five and/or ten years).</p> <p>We recommended that Yangzijiang integrate TCFD recommendations in its sustainability reporting, disclose a medium-term decarbonization target, disclose its scope 3 emissions, and provide additional disclosure on biodiversity with reference to TNFD.</p>

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

## ESG RIIM PROFILE

The T. Rowe Price Responsible Investing Indicator Model (RIIM) rates companies, governments and securitized assets in a traffic light system measuring their environmental, social, and governance profile and flagging issuers with elevated risks. For certain types of investments, including, but not limited to, cash, currency positions, and particular types of derivatives, an ESG analysis may not be relevant or possible due to a lack of data. Where ESG considerations are integrated into the investment research process, we may conclude that other attributes of an investment outweigh ESG considerations when making investment decisions.

	Portfolio		Benchmark	
	No. of securities	% weight	No. of securities	% weight
● Green	29	63.6	442	59.5
● Orange	14	34.0	303	38.2
● Red	0	0.0	33	1.9
● Not in scope	0	0.0	4	0.4
● Not covered	0	0.0	0	0.0
● Cash	1	2.5	0	0.0
<b>Total</b>	<b>44</b>	<b>100.0</b>	<b>782</b>	<b>100.0</b>

● No/few Flags    ■ Medium Flags    ▲ High Flags

The comparator benchmark of the Fund is the MSCI China All Shares Net Index. The manager is not constrained by the fund's benchmark, which is used for performance comparison purposes only.

**RISKS - The following risks are materially relevant to the fund (refer to prospectus for further details):** Country (China) - Chinese investments may be subject to higher levels of risks such as liquidity, currency, regulatory and legal risks due to the structure of the local market. Currency - Currency exchange rate movements could reduce investment gains or increase investment losses. Emerging markets - Emerging markets are less established than developed markets and therefore involve higher risks. Issuer concentration - Issuer concentration risk may result in performance being more strongly affected by any business, industry, economic, financial or market conditions affecting those issuers in which the fund's assets are concentrated. Small and mid-cap - Small and mid-size company stock prices can be more volatile than stock prices of larger companies. Stock Connect - Stock Connect is subject to higher regulatory, custody, and default risks as well as liquidity risk and quota limitations.

**General fund risks - to be read in conjunction with the fund specific risks above.** Equity - Equities can lose value rapidly for a variety of reasons and can remain at low prices indefinitely. ESG and sustainability - ESG and Sustainability risk 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. 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 - 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.

## ADDITIONAL DISCLOSURES

Source: 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.

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