T. ROWE PRICE FUNDS SICAV

European High Yield Bond Fund – ESG Report

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

As at 30 June 2020

ESG INTEGRATION APPROACH

- The European High Yield Bond Fund uses ESG integration as part of its investment process. This means incorporating environmental, social and governance factors to enhance investment decisions. Our central mission is to help our clients reach their long-term financial goals and we believe that incorporating ESG factors into our investment process alongside financials, valuation, macro-economics and other factors is consistent with that objective. Our philosophy is that ESG factors are a component of the investment decision – meaning that they are not the sole driver of an investment decision, nor are they considered separately from more traditional analysis.

- The process of ESG integration takes place on two levels: first, with our research analysts as they incorporate environmental, social, and governance factors into issuer valuations and ratings; and, second, with the portfolio manager as he balances these ESG factor exposures at the portfolio level. Both the analysts and portfolio manager are able to leverage dedicated, in-house resources to assist them in analyzing ESG criteria.

- Our ESG specialist teams provide investment research on ESG issues at the issuer level and on thematic topics. Additionally, they have built tools to help pro-actively and systematically analyze the environmental, social and governance factors that could impact our investments. The foundation of the analysis is a proprietary flagging tool called the Responsible Investing Indicator Model (RIIM). It covers approximately 14,000 securities and pulls from data sets that are not in the wheelhouse of traditional financial analysis. These data sets include:
  - ESG performance data (i.e. number of accidents, carbon emissions, strength of whistle-blower programs);
  - ESG targets (i.e. plans to reduce carbon emissions, increase diversity, etc.)
  - ESG incidents and controversies (i.e. environmental fines paid, local community controversies/protests against a company, etc.)

- Our European High Yield Bond Fund seeks to generate alpha by focusing on proprietary, bottom up research to identifying companies offering long-term performance potential. The Europe High Yield investment team examines each potential investment; each holding; and the entire portfolio with an approach deeply rooted in fundamental analysis along with a macro and industry top-down view. These processes naturally incorporate an analysis of each company's environmental, social, and governance factors and tend to yield an ESG-friendly portfolio. However, our Europe High Yield investment team collaborates closely with our ESG specialists to augment their work. We also screen the portfolio using T. Rowe Price's proprietary RIIM analysis at regular intervals. This helps us understand the ESG characteristics of the portfolio and makes us aware of any exposures to specific ESG factors or how these ESG factors may impact a company's business operations and market performance.

RECENT COMPANY ENGAGEMENTS

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

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

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

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EQT (1st Quarter 2020)

Focus	Governance
Company Description	EQT is a leading independent natural gas producer.
Engagement Objective	The company articulated its approach to sustainability and reporting on environmental and social data. Additionally, we discussed best practice in ESG disclosure.
Participants	T. Rowe Price's Director of Research, Responsible Investing, and a Responsible Investing Analyst engaged with EQT's CFO, General Counsel, and Investor Relations representatives.
Engagement Outcome	EQT believes that it can be a leader in the ESG space, particularly compared with its industry peers. This is based on the company's focus on natural gas production and high operational standards. Our discussion centered on EQT's existing ESG disclosure and long-term sustainability strategy. Additionally, we focused on the topic of ESG accountability, which has been embedded at the Board and Executive Committee level. The company aims to have everyone at EQT aligned on ESG accountability, from senior management down to intern level. We shared our views on best practice in terms of ESG disclosure. EQT's disclosure on ESG-relevant metrics is already good, particularly compared to peers. We explained how T. Rowe Price uses ESG disclosure in our company analysis as well as they types of questions and demand trends we are seeing from our clients around investments in fossil fuel producers.

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.

Telefonica (4th Quarter 2019)

Focus	Governance, Environmental
Company Description	Telefonica is a multi-national telecommunications operator with businesses in Spain, Brazil, Germany, and Latin America.
Engagement Objective	We engaged with Telefonica for a broad discussion on governance. We also discussed the company's recent sustainability commitments.
Participants	T. Rowe Price's Head of Corporate Governance engaged with Telefonica's Global Director Investor Relations, Chief Financial & Control Officer, and General Counsel.
Engagement Outcome	Telefonica is focused on refreshing its board's composition and skillset, to ensure alignment with company strategy. The board remains committed to investing in human capital management and fostering a positive corporate culture. The company has recently included ESG metrics in its remuneration program. We also discussed Telefonica's sustainability commitments, including the company's new target to extend decarbonization to its entire value chain. The engagement informed our investment research.

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.

Risks - The following risks are materially relevant to the fund (refer to prospectus for further details):
Country risk (Russia and Ukraine) - in these countries, risks associated with custody, counterparties and market volatility are higher than in developed countries. **Credit risk** - a bond or money market security could lose value if the issuer's financial health deteriorates. **Default risk** - the issuers of certain bonds could become unable to make payments on their bonds. **Derivatives risk** - derivatives may result in losses that are significantly greater than the cost of the derivative. **Emerging markets risk** - emerging markets are less established than developed markets and therefore involve higher risks. **High yield bond risk** - a bond or debt security rated below BBB- by Standard & Poor's or an equivalent rating, also termed 'below investment grade', is generally subject to higher yields but to greater risks too. **Interest rate risk** - when interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality. **Liquidity risk** - any security could become hard to value or to sell at a desired time and price. **Sector concentration risk** - the performance of a fund that invests a large portion of its assets in a particular economic sector (or, for bond funds, a particular market segment), will be more strongly affected by events affecting that sector or segment of the fixed income market.

General fund risks - to be read in conjunction with the fund specific risks above. Capital risk - the value of your 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 currency in which you subscribed, if different. **Counterparty risk** - an entity with which the fund transacts may not meet its obligations to the fund. **Geographic concentration risk** - to the extent that a fund invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area. **Hedging risk** - a Fund's attempts to reduce or eliminate certain risks through hedging may not work as intended. **Investment fund risk** - investing in funds involves certain risks an investor would not face if investing in markets directly. **Management risk** - the investment manager or its designees may at times find their obligations to a fund to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably). **Operational risk** - operational failures could lead to disruptions of fund operations or financial losses.

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