ESG INTEGRATION APPROACH

- The Emerging Markets Discovery Equity Fund uses ESG integration as part of its investment process. This means incorporating environmental, social, and governance factors to enhance investment decisions. Emerging markets are teeming with value traps, which make it particularly important to incorporate ESG factors into our investment decision-making as they help us avoid these value traps. 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 around 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.)

- Our approach to environmental and social factor integration is differentiated at the sector and industry levels, where our RIIM model helps us to determine the materiality of any given factor. Material ESG factors play an integral part in our risk/reward assessment of each company. Once all the factors have been assessed, the conclusions can influence whether to include or exclude the company or at what weight to add the company to the portfolio. Usually, ESG factors are considered as a component of the final investment decision.

- The fund is classified as Article 8 according to the Sustainable Finance Disclosure Regulation. Although the fund does not have sustainable investment as an objective, the promotion of environmental and social characteristics is achieved through the fund’s commitment to maintain at least 10% of the value of its portfolio invested in Sustainable Investments. The fund avoids issuers whose activities we may consider harmful to the environment and/or society through the application of our proprietary screen, the T. Rowe Price Responsible Exclusion List.

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 widely diversified portfolio of shares of emerging market companies. Although the fund does not have sustainable investment as an objective, the promotion of environmental and/or social characteristics is achieved through the fund’s commitment to maintain at least 10% of the value of its portfolio invested in sustainable investments, as defined by the SFDR. In addition to the E/S characteristics promoted, the fund also applies the investment manager’s proprietary responsible screen (the T. Rowe Price Responsible Exclusion List). 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, 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.
# OTP Bank (3rd Quarter 2023 Engagement)

<table>
<thead>
<tr>
<th>Focus</th>
<th>Environment</th>
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</thead>
<tbody>
<tr>
<td><strong>Company Description</strong></td>
<td>OTP Bank is a leading Hungarian bank with a dominant retail franchise.</td>
</tr>
<tr>
<td><strong>Engagement Objective</strong></td>
<td>We engaged with the bank for a discussion on climate strategy and ESG bonds.</td>
</tr>
</tbody>
</table>
| **Participants** | From OTP Bank: Head of ESG  
From T. Rowe Price: Responsible Investing Analyst |

We engaged with OTP Bank on its sustainability strategy. The bank is making strides in relation to managing its own carbon footprint and building its green credit portfolio but falls behind global best practice in managing climate risks on the balance sheet. We took this opportunity to provide several recommendations relating to disclosure and target setting, to bring OTP in line with its regional peers.

## Carbon footprint

OTP has set a target to be carbon neutral by 2030 across scope 1-2\(^1\) emissions. We discussed the viability of setting a net zero target but the bank noted that in many regions in which it operates (Albania, Montenegro, and Serbia) it does not have access to the renewable energy sources of the liberalized European Union energy market. The bank is considering building its own solar photovoltaic parks in these regions as a result. We recommended it set a net zero target for scope 1 and 2 emissions in regions where a net zero target is achievable.

## Green lending

The bank has a target to provide EUR 3.9 billion in green lending by FY25 and is on course to meet this, with EUR 768 million financed as of FY22. OTP Bank expects this target will be split 2:1 between its corporate customers (loans targeting green buildings, renewable energy, clean transportation, and agriculture) and retail customers (green mortgages). The head of ESG also confirmed that the bank provides pricing discounts on these products to help facilitate the transition to a green economy.

## Financed emissions

OTP Bank falls behind its global and regional peers in not measuring or reducing the financed emissions tied to its lending activities. The bank is looking to calculate the emissions of its large corporate clients but feels data availability remains a big challenge. It is also beginning to assess the decarbonization plans of its corporate clients. We recommended the bank leverage external methodologies such as Partnership for Carbon Accounting Financials (PCAF) to measure and report on the financed emissions tied to its lending activities.

## ESG bonds

OTP Bank issued its first series of green bonds through its sustainable financing framework in July 2022 and indicated it would publish its first allocation/impact report in July 2023. The bank is likely to issue more green bonds in the future and is considering issuing a social bond to finance its microlending business.

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\(^1\) 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.
Hyundai Motors (2nd Quarter 2023 Engagement)

<table>
<thead>
<tr>
<th>Focus</th>
<th>Social</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Description</td>
<td>Hyundai Motors is a South Korean car manufacturer.</td>
</tr>
<tr>
<td>Engagement Objective</td>
<td>We engaged with the company to discuss incidents involving child labor that were found in some of its U.S. operations.</td>
</tr>
<tr>
<td>Participants</td>
<td>From Hyundai: ESG Representatives (2)</td>
</tr>
<tr>
<td></td>
<td>From T. Rowe Price: Responsible Investing Analyst</td>
</tr>
</tbody>
</table>

**Engagement Outcome**

We followed up with Hyundai Motors to discuss child labor violations that were uncovered in 2022 at a U.S. subsidiary and a supplier, both located in Alabama. We sought to understand the results of the investigation into the incidents and what actions the company took at each business. Additionally, we sought to get an update on the company’s ESG due diligence process rollout in overseas subsidiaries and suppliers, as well as on Board oversight for social issues. Finally, we aimed to engage Hyundai Motors on human rights issues in its Chinese supply chain.

One incident involving child labor was found at the subsidiary, and three incidents were uncovered at the supplier. The company has stated its intention to divest the subsidiary. Regarding the second site, Hyundai Motors opted to educate the supplier and imposed a monthly oversight meeting with the headquarters’ procurement team.

We received an update on the company’s ESG due diligence process, which has shown some improvement, though it is still being rolled out. Hyundai Motors said the expected date for full rollout is 2023 for overseas subsidiaries and 2024 for all overseas suppliers. The time frame for implementing overseas due diligence is later than we expected, but we believe it is reasonable given the scale of Hyundai Motors’ supply chain. The company said it has rolled out an accelerated on-site inspection process for U.S. suppliers and improved its risk prevention methods (e.g., supplier selection criteria now include ESG).

Regarding ESG accountability, management appears to have grasped the severity of the child labor violation, as evidenced by the chief executive officer addressing the issue at the annual general meeting. Hyundai Motors’ Board is playing a more active role in ESG matters and has a clear line of oversight for environmental and social matters.

Regarding the oversight of domestic suppliers, Hyundai Motors noted the difficulty for original equipment manufacturers (OEMs) in South Korea to fully control and implement their policies with suppliers. This is because giving OEMs the power to monitor labor practices could be construed as a manipulation of power in the business, according to the company. However, Hyundai Motors said it expected this view would abate over time.

We were encouraged to note several positive changes, including evidence of management and Board accountability, ESG becoming a formalized part of supplier selection, and completed ESG due diligence at U.S. suppliers, with no issues found. Looking ahead, we will monitor for a complete rollout of ESG due diligence at the company’s subsidiaries and suppliers.
SUSTAINABILITY INDICATOR
The fund is classified as Article 8 according to the Sustainable Finance Disclosure Regulations (SFDR).

The sustainability indicator used by the fund is a minimum of 10% of the value of the fund’s portfolio held in securities that the investment manager identifies as sustainable investments.

The percentage exposure of the fund to sustainable investments is:

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<tr>
<th></th>
<th>Target Minimum Exposure</th>
<th>Fund Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable Investments</td>
<td>10.0%</td>
<td>23.9%</td>
</tr>
</tbody>
</table>

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. Country (Russia and Ukraine) - Russian and Ukrainian investments may be subject to higher risks associated with custody and counterparties, liquidity, market disruptions, as well as strong or sudden political risks. 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. 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. Style - Style risk may impact performance as different investment styles go in and out of favor depending on market conditions and investor sentiment.

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.
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