



**T. ROWE PRICE FUNDS SICAV**

## European Smaller Companies Equity Fund – ESG Report

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

As at 30 June 2020

### ESG INTEGRATION APPROACH

- The European Smaller Companies 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 environmental, social, and governance 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 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 company 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.)
- The portfolio manager seeks primarily to acquire European small-cap companies that we believe are capable of growing earnings faster than average for a period beyond that of a market cycle. Such “durable growth” companies will typically exhibit a compelling business model that enables them to generate a sustainable competitive advantage and, in particular, offers clear material benefits to their customers. The research the ESG specialist teams provide is additive to the fundamental research that helps us to identify these companies.

### 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.

**SPIE (1<sup>st</sup> Quarter 2020)**

<b>Focus</b>	Environmental, Social, Governance
<b>Company Description</b>	SPIE is a leading independent provider of multi-technical services in Europe.
<b>Engagement Objective</b>	We engaged on ESG reporting best practices with the company.
<b>Participants</b>	A T. Rowe Price Responsible Investing Analyst engaged with an Investor Relations representative from SPIE.
<b>Engagement Outcome</b>	<p>The company is working on improving its sustainability efforts, including the recent hiring of a Director of Corporate Social Responsibility.</p> <p>We guided the company through an ESG analysis based on our proprietary model and noted areas where the company could improve disclosure. We focused in particular on how to better disclose ESG metrics (including format, the inclusion of greenhouse gas emissions data, and setting clear targets, among other improvements).</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.

**Cairn Homes (1<sup>st</sup> Quarter 2020)**

<b>Focus</b>	Environmental
<b>Company Description</b>	Cairn Homes is an Ireland-based homebuilder company.
<b>Engagement Objective</b>	We engaged with Cairn Homes to understand what initiatives the company is taking to improve the energy efficiency of the homes it builds.
<b>Participants</b>	T. Rowe Price's CIO, International Equities, a Portfolio Manager, and an Investment Analyst engaged with Cairn Homes' Head of Finance and Head of Investor Relations.
<b>Engagement Outcome</b>	<p>Cairn Homes outlined the steps it is taking to improve its environmental profile. As the company believes that there will be increasing regulations around energy efficiency, it is designing near-zero energy buildings that utilise ground source heat pumps. These are typically more energy efficient than oil and gas boilers. While the upfront costs might be higher for these energy alternatives, the company highlighted that the total cost of ownership is lower.</p> <p>Cairn Homes also highlighted that it has board meetings dedicated to ESG, and that two board members have sustainability experience.</p> <p>The engagement informed our investment research. We gained a better understanding of the company's energy efficiency initiatives and ESG accountability. We have adjusted our RIIM analysis of the company accordingly.</p>

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**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. **Currency risk** - changes in currency exchange rates could reduce investment gains or increase investment losses. **Small and mid-cap risk** - stocks of small and mid-size companies can be more volatile than stocks of larger companies.

**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. **Equity risk** - in general, equities involve higher risks than bonds or money market instruments. **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.

**IMPORTANT INFORMATION**

The Funds are sub-funds of the T. Rowe Price Funds SICAV, a Luxembourg investment company with variable capital which is registered with Commission de Surveillance du Secteur Financier and which qualifies as an undertaking for collective investment in transferable securities ("UCITS"). Full details of the objectives, investment policies and risks are located in the prospectus which is available with the key investor information documents in English and in an official language of the jurisdictions in which the Funds are registered for public sale, together with the articles of incorporation and annual and semi-annual reports (together "Fund Documents"). Any decision to invest should be made on the basis of the Fund Documents which are available free of charge from the local representative, local information/paying agent or from authorised distributors and via [www.troweprice.com](http://www.troweprice.com).

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