



T. ROWE PRICE FUNDS SICAV

## European Smaller Companies Equity Fund – ESG Report

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

As of 30 September 2024

### ESG 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. Consideration of ESG factors helps us to understand a company’s operating model and its management team motivations. This is particularly relevant in small-cap investing, where company disclosure may be limited and governance risk heightened.
- 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.)
- The portfolio manager seeks primarily to acquire European small-cap companies that 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.
- 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 diversified portfolio of shares of smaller publicly traded European 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, 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.

**Eurofins Scientific (2<sup>nd</sup> Quarter 2024 Engagement)**

<b>Focus</b>	Governance
<b>Company Description</b>	Eurofins Scientific (Eurofins) is a Luxembourg-based bioanalysis company that offers testing for the food, environmental, pharmaceutical, and other industries.
<b>Engagement Objective</b>	We engaged with Eurofins to hear management's response to a short seller's report.
<b>Participants</b>	From Eurofins: Executive Chairman; Chief Financial Officer; Head of Investor Relations and Strategy  From T. Rowe Price Associates, Inc: Head of Governance, EMEA and APAC; Investment Analyst
<b>Engagement Outcome</b>	<p>We engaged with Eurofins alongside other investors to hear management's response to allegations contained in a June research report from Muddy Waters, a well-known short seller. In the report, Muddy Waters disclosed a short position in Eurofins, alleging that the company's financials "could contain material overstatements of profits, cash balances, and other asset values." The report described Eurofins as overly complex and opaque, echoing similar observations made by another short seller, ShadowFall, in 2019.</p> <p>In its report, Muddy Waters raised questions about Eurofins' chief executive's purchase of real estate that was then leased back to the company. In response, Eurofins said that its governance committee, comprising all its independent Board directors, assesses all related-party transactions, including real estate appraisals, to ensure that they are conducted at arm's length. However, it conceded that it could do more to build trust in its governance and offered investors a chance to speak with the chair of its audit committee. The executive chairman also said that he was open to increasing the size of the audit committee.</p> <p>Cash accounting protocol was another issue raised in Muddy Waters' report. In response, Eurofins said its cash pooling and receivables classification was dependent on local accounting principles. The company holds 100% of its cash at the group level, unless there was currency control at the market level. The managing director of each legal entity must sign off the local accounts from the local statutory auditor, and the auditors check the cash positions with external parties. Eurofins said that its auditors will disclose extra controls that they have undertaken regarding the cash position in its upcoming half-year report.</p> <p>Regarding Eurofins' internal controls (an issue that was raised in the last short seller's report), the company said that its national service center ensures the enforcement of national and group rules. Each year, the audit committee approves the audit plan. It audits each subsidiary two to three times a year remotely and conducts a physical audit if there are any questions. In response to whether Eurofins plans to simplify its corporate structure, management said that the current structure provided flexibility even if it resulted in high audit fees.</p> <p>In our view, Eurofins rebut of the allegations in the Muddy Waters report left some questions unanswered, as such we have requested a meeting with relevant Board members (i.e., the audit committee chair).</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.

**Hypoport (2<sup>nd</sup> Quarter 2024 Engagement)**

<b>Focus</b>	Governance
<b>Company Description</b>	Hypoport develops and markets technology platforms for the financial services, property, and insurance industries in Germany.
<b>Engagement Objective</b>	We engaged with Hypoport to discuss its Board composition and remuneration policy.
<b>Participants</b>	From Hypoport: Investor Relations Representative  From T. Rowe Price Associates, Inc: Head of Governance for EMEA and APAC; Corporate Governance Analyst
<b>Engagement Outcome</b>	<p>Hypoport remains a company with a single-gender Board with none of the existing directors up for reelection until 2026. We encouraged action to be taken with the company's Board structure as we have done in the past. The company did not add any female Board members at the 2024 annual general meeting (AGM) but noted that it is aware of the issue and is thinking about recruiting qualified female candidates in the future. We repeated our advice that taking action before the 2026 AGM and increasing its unusually small supervisory board size of three would be beneficial and viewed favorably by investors.</p> <p>Additionally, the company's new remuneration policy introduced a long-term incentive plan (LTIP) for the first time, which we believe has an unconventional structure. The LTIP has a term of three to five years, and Board members decide to choose three, four, or five years. The maximum pay is EUR 1 million per person for the full term of five years, EUR 800,000 for a four-year term, and EUR 600,000 for three years. If the company achieves 100% or more of the LTIP target in a year, the Board member can ask to partly cash out. We believe cautious support is warranted for the remuneration report. While disclosure is limited, in the year under review, the lead executive received no variable pay and the overall quantum was modest.</p> <p>The engagement allowed us to impart our views on best practice on board diversity and remuneration.</p>

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## 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	81	87.9	795	93.1
● Orange	5	4.7	62	6.0
● Red	0	0.0	2	0.1
● Not in scope	1	0.4	2	0.1
● Not covered	2	2.2	9	0.7
● Reserves	1	4.8	0	0.0
<b>Total</b>	<b>90</b>	<b>100.0</b>	<b>870</b>	<b>100.0</b>

● No/few Flags ● Medium Flags ● High Flags

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

## 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:

	Target Minimum Commitment %	Fund Exposure %
Sustainable Investments	10.0	38.0
with Environmental Objectives	0.5	17.9
with Social Objectives	0.5	20.1

## PRINCIPAL ADVERSE IMPACT (PAI) INDICATORS

Under the European Union Sustainable Finance Disclosure Regulations (SFDR), investment managers are required to take into account Principal Adverse Impact (PAI) indicators, a set of metrics that highlight the potential negative impacts on sustainability factors that result from investment decisions. This is integrated into our ESG analysis at a security level.

Some PAI indicators have limited data availability which may lead to misrepresentative values for the fund. In these cases, the metric value and data coverage are displayed as n/a in the following tables.

In addition, the investment manager considers the following PAI indicators at an aggregate fund level. Metric values are shown in the Base Currency of the fund (EUR):

PAI Indicator	Metric Description	Unit of Measurement	Metric Value	Metric Coverage (%)
10. Violations of UNGC principles and OECD guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	Percentage of total invested	0.0%	94.7%
13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of board members	Average ratio of female board members	36.9%	91.3%
14. Exposure to controversial weapons	Share of investments in investee companies involved in the manufacture or selling of controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Percentage of total invested	0.0%	92.5%

The table below displays the remaining PAI indicators as of the report date. These are displayed for reporting purposes. Metric values are shown in the Base Currency of the fund (EUR):

PAI Indicator	Metric Description	Unit of Measurement	Metric Value	Metric Coverage (%)
1. GHG Emissions	Scope 1 GHG emissions	mtCO <sub>2</sub> e	950	89.4%
	Scope 2 GHG emissions	mtCO <sub>2</sub> e	428	89.4%
	Scope 3 GHG emissions	mtCO <sub>2</sub> e	31,925	87.8%
	Total GHG emissions	mtCO <sub>2</sub> e	33,303	89.4%
2. Carbon footprint	Carbon footprint	mtCO <sub>2</sub> e per mn invested	642.9	89.4%
3. GHG intensity of investee companies	GHG intensity of investee companies	mtCO <sub>2</sub> e per mn revenue	950.7	89.0%
4. Exposure to companies active in fossil fuel sector	Share of investments in companies active in the fossil fuel sector	Percentage of total invested	5.2%	94.7%
5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	Percentage of non-renewable energy	63.2%	56.8%
6. Energy consumption intensity	Energy consumption in GWh per million of revenue of investee companies	GWh/mn of revenue	0.2	83.3%
7. Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	Percentage of total invested	0.0%	94.7%
8. Emissions to water	Tonnes of emissions to water generated by investee companies per million invested, expressed as a weighted average	Ktons per mn invested	n/a	n/a
9. Hazardous waste	Tonnes of hazardous waste generated by investee companies per million invested, expressed as a weighted average	Ktons per mn invested	n/a	n/a
11. Lack of processes and compliance mechanisms to monitor compliance with UNGC principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	Percentage of total invested	6.7%	94.7%
12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	Percentage of pay gap	n/a	n/a

## GLOSSARY OF TERMS

**Metric coverage** - The percentage of the portfolio for which PAI data is available

**GHG** - Greenhouse gas emissions

**Scope 1 GHG emissions** - Direct greenhouse gas emissions by the fund

**Scope 2 GHG emissions** - Indirect greenhouse gas emissions made by the fund

**Scope 3 GHG emissions** - All other indirect emissions that occur in the funds value chain

**mtCO<sub>2</sub>e** - Metric tonnes of carbon dioxide equivalent

**Carbon footprint (Scope 1,2 & 3 emissions)** - The total greenhouse gas emissions per million invested in the fund

**GWh** - Gigawatt Hours

**Ktons** - Kilotonnes

**UNGC** - The United Nations Global Compact

**OECD** - The Organization for Economic Co-operation and Development

**No data** - no data is available or can be calculated for the indicator

**RISKS - The following risks are materially relevant to the fund (refer to prospectus for further details):** Currency - Currency exchange rate movements could reduce investment gains or increase investment losses. Liquidity - Liquidity risk may result in securities becoming hard to value or trade within a desired timeframe at a fair price. Small and mid-cap - Small and mid-size company stock prices can be more volatile than stock prices of larger companies.

**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.

Holdings-based analytics are calculated using T. Rowe Price's internal Investment Book of Records (IBOR). Due to timing and accounting methodology differences, IBOR data may differ from the Accounting Book of Records (ABOR) data provided by the Fund's accountant.

## 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 (KIID) and/or key information document (KID) 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 the 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. They can also be found along with a summary of investor rights in English at [www.troweprice.com](http://www.troweprice.com). The Management Company reserves the right to terminate marketing arrangements.

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