



T.RowePrice

T. ROWE PRICE FUNDS SICAV

## Frontier Markets Equity Fund – ESG Report

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

As at 31 December 2023

### ESG INTEGRATION APPROACH

- The Frontier Markets 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.)
- 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.

**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 frontier markets 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.

## Georgia Capital (3<sup>rd</sup> Quarter 2023 Engagement)

<b>Focus</b>	Governance
<b>Company Description</b>	Georgia Capital invests in and develops businesses in Georgia.
<b>Engagement Objective</b>	We engaged with Georgia Capital on remuneration and succession.
<b>Participants</b>	From Georgia Capital: UK General Counsel; Investor Relations Representative, Lead Director From T. Rowe Price: Head of Governance, EMEA and APAC
<b>Engagement Outcome</b>	<p>We engaged with Georgia Capital to discuss our concerns regarding the pay of the executive chair and other issues including succession planning, talent development, and board composition.</p> <p>The lead director noted that the decision to shrink the board had been made with an eye to the company's market capitalization. He expects the next appointee to the board to be a female director. That the board meets in person in Georgia is an ongoing issue in terms of recruiting for non-executive directors.</p> <p>It is problematic that Georgia Capital's executive chair, Irakli Gilauri, sits on the nominating committee which is supposed to be reviewing executive succession. However, there is a structured succession planning in process.</p> <p>Gilauri is secured until 2025—while it is not clear what will happen beyond 2026, the company expects the board to ask him to stay on.</p> <p>The board meets with executive talent in the organization to identify those who can take on bigger roles. There are also high-quality leaders running the group's portfolio companies, who could be recruited.</p> <p>Gilauri's pay was a live debate at the time of the spinout but not since. The reward he takes is via equity with a five-year vesting period.</p> <p>We shared our perspective on the chair's pay and will provide feedback to the remuneration committee on our concerns.</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.

## Nova Ljubljanska Banka (3<sup>rd</sup> Quarter 2023 Engagement)

Focus	Environment, Governance
Company Description	Nova Ljubljanska is a bank operating primarily in Slovenia.
Engagement Objective	We engaged with the bank on climate strategy, green bonds, and remuneration.
Participants	<p>From Nova Ljubljanska Banka (NLB): Chief Financial Officer; Head of Sustainability; Investor Relations representative</p> <p>From T. Rowe Price: Investment Analysts; Head of Governance; Responsible Investing Analyst</p>
Engagement Outcome	<p>We met with the bank to (i) make disclosure and target-setting recommendations relating to its climate strategy, (ii) conduct due diligence on its green bond issuance, and (iii) share our feedback on the 2023 annual general meeting (AGM) results.</p> <p><b>Carbon emissions:</b> The bank reports its scope 1-2<sup>1</sup> emissions and some scope 3 emissions categories but falls behind its peers in having no forward-looking metrics. We recommended the bank set a science-based or net zero target for its scope 1-2 emissions.</p> <p><b>Financed emissions:</b> NLB has measured the financed emissions across its balance sheet and expects to set sectoral targets for the residential and commercial real estate, power production, transportation, iron and steel, and manufacturing industries by November 2023. These targets will focus on drawn loans only, and we recommended the bank include undrawn commitments within its measurement and target setting to bring NLB in line with industry best practice.</p> <p><b>Client engagement:</b> NLB has begun engaging with clients deemed to have high climate risk, and the bank walked through the qualitative and quantitative factors that go into this assessment. We recommended the bank publicly disclose its client engagement strategy in the upcoming climate report, and we provided examples of best practice from peers.</p> <p><b>Green bond framework:</b> The bank issued a EUR 500 million green bond in June 2023 and has already allocated EUR 200 million toward energy efficiency (45%), renewable energy (25%), clean transport (20%), and green building (10%) projects. We also provided several recommendations to the bank, including reporting the financing/refinancing split of proceeds, adding restrictions on unallocated proceeds, obtaining an audit report for post-issuance reporting, and reporting impact key performance indicators (KPIs) alongside the International Capital Market Association's (ICMA)'s core KPIs.</p> <p><b>Remuneration:</b> We explained that we had voted against the remuneration report at the 2023 AGM because the degree of achievement of the bonus metrics was not included within the remuneration report. The company said this was an issue that other investors had also raised, and it does not expect it to be an issue at the 2024 AGM.</p> <p>We are pleased with the progress the bank is making on its climate strategy and made several recommendations relating to disclosure and target setting to bring it in line with industry best practice.</p>

<sup>1</sup> 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.

## 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	41	67.2	65	42.1
● Orange	11	17.3	17	11.6
● Red	0	0.0	4	1.0
● Not in scope	9	13.7	124	43.8
● Not covered	0	0.0	1	1.5
● Cash	1	1.8	0	0.0
<b>Total</b>	<b>62</b>	<b>100.0</b>	<b>211</b>	<b>100.0</b>

● No/few Flags    ● Medium Flags    ▲ High Flags

The comparator benchmark of the Fund is the MSCI Frontier Markets 10/40 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):** 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. Frontier markets - Frontier markets are less mature than emerging markets and typically have higher risks, including limited investability and liquidity. 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. Liquidity - Liquidity risk may result in securities becoming hard to value or trade within a desired timeframe at a fair price. Sector concentration - Sector concentration risk may result in performance being more strongly affected by any business, industry, economic, financial or market conditions affecting a particular sector 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.

**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.

## IMPORTANT INFORMATION

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