



**T. ROWE PRICE FUNDS SICAV**

## Global Equity Dividend Fund – ESG Report

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

As at 30 June 2020

### ESG INTEGRATION APPROACH

- The Global Equity Dividend 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.)
- 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. ESG factors are considered as a component of the final investment decision.

### 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.

**For Investment Professionals only. Not for further distribution.**

**Al Rajhi Bank (4<sup>th</sup> Quarter 2019)**

<b>Focus</b>	Environmental, Social
<b>Company Description</b>	Al Rajhi Bank is a Saudi Arabian Islamic bank.
<b>Engagement Objective</b>	We spoke with Al Rajhi Bank to gain clarity on recent ESG controversies and discuss ESG initiatives, focusing in particular on ethics and gender diversity.
<b>Participants</b>	From T. Rowe Price, two Portfolio Managers, one Investment Analyst and one Responsible Investment Analyst participated in this engagement. They spoke with an Investor Relations representative from Al Rajhi Bank.
<b>Engagement Outcome</b>	<p>Al Rajhi Bank explained that its litigation risk has reduced following settlements in 2018 and 2019 over tax disputes and violations of lending principles. A lawsuit alleging the bank engaged in terrorism financing remains ongoing, and the bank was unable to provide an update on investigations related to this. However, we are not expecting a negative outcome.</p> <p>The bank highlighted that it has been transparent with regulators and that the lawsuit has been rejected several times in the U.S. courts since 2017. In addition, it has worked to improve its compliance programs in recent years.</p> <p>In relation to gender diversity, the bank explained that the number of female employees has increased by 15% in the past five years, albeit not in managerial roles. It will aim for females to account for 30% of senior leadership positions in the future but provided no detail on the timeframes of this target.</p> <p>The engagement gave us comfort that ESG risks at the bank seem to be declining. It improved our view on the bank's ESG rating given reassurances about reduced litigation risk and progressive ESG initiatives.</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.

**Merck (4<sup>th</sup> Quarter 2019)**

<b>Focus</b>	Governance
<b>Company Description</b>	Merck is one of the world's largest healthcare companies.
<b>Engagement Objective</b>	We engaged with Merck for a broad discussion on governance and ESG reporting
<b>Participants</b>	T. Rowe Price's Head of Corporate Governance engaged with representatives of Investor Relations, Executive Compensation, and Corporate Responsibility from Merck.
<b>Engagement Outcome</b>	<p>The purpose of our engagement with Merck was to have discussion on governance. The discussion allowed us to share our viewpoint and understand the company's approach.</p> <p>We discussed the case of a board member who gained lower support than others in a recent vote because he is also the CEO of Corning and sits on the board of Amazon. Given Amazon's experiments in healthcare and overall unique approach, Merck believes that sharing a board member with the company is of benefit. We agree and voted in favour.</p> <p>The CEO succession process is ongoing, with full board involvement—the company provided no updates. There have been no changes to compensation.</p> <p>Every year, Merck receives a proxy voting proposal about separating the CEO and Chairman roles. The vote is usually not close, with investors taking management's side. We discussed why the company wants to maintain flexibility on this question, particularly at a time of an impending CEO succession.</p> <p>Merck implemented a new approach in its ESG reporting this year, separating out a narrative corporate social responsibility report from a data-centered one. The audience for the former is its employee base and stakeholders, while the second one is intended for institutional investors.</p> <p>The report is aligned with several external guidelines and measurement frameworks, including the Global Reporting Initiative Standards, the Sustainability Accounting Standards Board, the UN Sustainable Development Goals, and the UN Global Compact.</p>

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**Risks - The following risks are materially relevant to the fund (refer to prospectus for further details):**

**Country risk (China)** - all investments in China are subject to risks similar to those for other emerging markets investments. In addition, investments that are purchased or held in connection with a QFII licence or the Stock Connect program may be subject to additional risks. **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. **Emerging markets risk** - emerging markets are less established than developed markets and therefore involve higher risks. **Small and mid-cap risk** - stocks of small and mid-size companies can be more volatile than stocks of larger companies. **Style risk** - different investment styles typically go in and out of favour depending on market conditions and investor sentiment.

**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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