T. ROWE PRICE FUNDS SICAV

Diversified Income Bond Fund – ESG Report

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

As at 31 December 2022

ESG INTEGRATION APPROACH

- The Diversified Income Bond Fund uses ESG integration as part of its investment process for the purpose of maximizing investment performance. By incorporating environmental, social, and governance (ESG) considerations into our investment process, we seek to understand the range of ESG risks, together with many other investment criteria, to better position ourselves to pursue consistent, strong long-term returns for our clients.

- The process of ESG integration takes place on two levels: first, with our research analysts as they incorporate environmental, social, and governance factors into issuer 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 issuer 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 15,000 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 is constructed on the basis of identifying the best risk/reward opportunities from the global fixed income universe. Key to this is proprietary bottom-up research that includes the assessment of ESG factors by our analysts who work in collaboration with the dedicated ESG specialist team. We complement this approach with regular screening of the portfolio using T. Rowe Price's proprietary RIIM analysis. This helps us understand the ESG characteristics of the portfolio and makes us aware of any elevated exposures to specific ESG factors from a risk management perspective.

INVESTMENT OBJECTIVE

To maximise the value of its shares through both growth in the value of, and income from, its investments.

INVESTMENT PROCESS

The fund is actively managed and invests mainly in a diversified portfolio of bonds of all types from issuers around the world, including emerging markets. 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, efficient portfolio management and investment purposes. The fund may also use derivatives to create synthetic short positions in currencies, debt securities, credit indices and equities. For full investment objective and policy details refer to the prospectus. The manager is not constrained by the fund's benchmark.

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.

Petroleos Mexicanos (4th Quarter 2021 Engagement)

Focus	Environment
Company Description	Petroleos Mexicanos (Pemex) is a Mexican state-owned oil producer.
Engagement Objective	We engaged with Pemex on its climate strategy, given the company's elevated exposure to energy transition risk.
Participants	From Pemex: Investor Relations Representatives From T. Rowe Price: Investment Analysts, Responsible Investing Analysts
Engagement Outcome	Pemex has not engaged meaningfully with investors on ESG matters in recent years. However, the company has begun to recognize the importance of these issues to its investors, and its focus on ESG appears to be increasing. The company recognized the need to communicate its ESG strategy and efforts more effectively with investors and wider stakeholder groups. In our view, Pemex's climate strategy is limited in scope and ambition compared with peers. Currently, Pemex's emission targets only go out to 2025 (as part of the company's 2021–2025 business plan). It is unlikely that the company will set longer-term targets in the near future or increase the level of ambition of its current emission intensity targets. As part of its nationally determined contribution, the Mexican government has set a target for the oil and gas sector to reduce its emissions by 14% versus a business-as-usual scenario by 2030. However, even by successfully meeting this target, Pemex expects that its absolute greenhouse gas emissions will increase out to 2030. The company is working to address its increased flaring and methane intensity over the past two to three years. Pemex will contribute to the government's national level target on methane emission reductions. At the recent COP26 climate conference, Mexico signed up to the methane pledge, which targets a 30% reduction in methane emissions by 2030. Pemex itself has not yet set explicit targets on methane emissions, but it is expected that the company would contribute to this goal. We asked Pemex about its increasing methane emissions and flaring intensity over the past two to three years. These are issues that the company is trying to address, first with increased efforts to identify and locate sources of emissions, but also through maintenance of older assets, closure of wells with high gas volumes, and increased utilization of associated gas by building out the necessary infrastructure. The company is currently modeling the physical climate risks to its operations and assets, and it aims to bring initiatives into its future business plans to better address these risks. Pemex has a reasonable set of ESG disclosures, and the company is assessing additional reporting frameworks. We encouraged the company to disclose using the Task Force on Climate-Related Financial Disclosures and the Sustainability Accounting Standards Board reporting frameworks. Pemex is currently analyzing both frameworks and will have an update on its reporting frameworks in 2022. Pemex's climate strategy is limited in scope and ambition compared with other international oil companies, although we appreciate that the company does not have full autonomy given the state ownership. The company is taking steps to address the most material ESG risks (including methane emissions) and its direction of travel is somewhat reassuring, although it is starting from a very low base. Its willingness to engage with investors on ESG is a marked improvement from recent years.

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. T. Rowe Price may have ongoing business and/or client relationships with the companies mentioned in this report.

Standard Chartered (4th Quarter 2022 Engagement)

Focus	Environmental
Company Description	Standard Chartered is an international banking group operating principally in Asia, Africa, and the Middle East.
Engagement Objective	We engaged with Standard Chartered for a discussion focused primarily on its approach to climate.
Participants	From Standard Chartered: Chairman, Non-Executive Directors (3) From T. Rowe Price: Responsible Investing Analyst
Engagement Outcome	We engaged with Standard Chartered to discuss climate. Our view is that energy transition presents a material financial risk to the banking sector as regulators around the world are increasingly focused on climate. We see some banks respond to this by adopting broad-brush sector exclusions, which we do not advocate. Instead, we believe financial services companies will be better served by taking a risk-mitigation approach and evaluating the climate strategies of the companies they are financing. In order to do this effectively, they will need to have a framework in place to evaluate each sector. The nature of our discussion with Standard Chartered was to understand how its frameworks were evolving as it engages with clients and provide our view on best practices. The bank is seen as one of the global leaders in managing financed emissions. However, its emerging markets-oriented footprint makes its method of providing transition financing to customers more prone to scrutiny from stakeholders. The bank has engaged with and evaluated 80% of its customers' transition plans and hopes to complete the remaining 20% in the first quarter of 2023. The bank's assessment is guided by the Glasgow Financial Alliance for Net Zero's (GFANZ) Expectations for Real-economy Transition Plans report, which highlights areas that are needed to have a robust transition strategy. Standard Chartered is also ranking clients on their emissions intensity, as well as against an International Energy Agency (IEA) NZE2050 pathway. The bank intends to provide additional detail on its framework in its next annual report. In terms of climate strategy, the bank aims to publish its next Task Force on Climate-Related Financial Disclosures (TCFD) report in the first quarter of 2023. This will include a progress report on the interim financed emissions targets for three sectors. The bank is also seeking to validate these targets with the Science-Based Targets initiative (SBTi) by this time, and it will be one of the first banks to have its financed emissions targets validated. The engagement allowed us to provide feedback on the bank's approach to managing financed emissions. We will evaluate the additional disclosures once available in 2023. By April 2023, Standard Chartered aims to provide a progress report on its interim financed emissions targets as well as provide additional disclosure on its client transition framework.

RISKS - The following risks are materially relevant to the fund (refer to prospectus for further details):
ABS and MBS - Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS) may be subject to greater liquidity, credit, default and interest rate risk compared to other bonds. They are often exposed to extension and prepayment risk. **Credit -** Credit risk arises when an issuer's financial health deteriorates and/or it fails to fulfill its financial obligations to the fund. **Currency -** Currency exchange rate movements could reduce investment gains or increase investment losses. **Default -** Default risk may occur if the issuers of certain bonds become unable or unwilling to make payments on their bonds. **Derivative -** Derivatives may be used to create leverage which could expose the fund to higher volatility and/or losses that are significantly greater than the cost of the derivative. **Emerging markets -** Emerging markets are less established than developed markets and therefore involve higher risks. **High yield bond -** High yield debt securities are generally subject to greater risk of issuer debt restructuring or default, higher liquidity risk and greater sensitivity to market conditions. **Interest rate -** Interest rate risk is the potential for losses in fixed-income investments as a result of unexpected changes in interest rates. **Liquidity -** Liquidity risk may result in securities becoming hard to value or trade within a desired timeframe at a fair price. **Prepayment and extension -** Mortgage- and asset-backed securities could increase the fund's sensitivity to unexpected changes in interest rates. **Real estate -** Real estate and related investments can be hurt by any factor that makes an area or individual property less valuable. **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. **Total Return Swap -** Total return swap contracts may expose the fund to additional risks, including market, counterparty and operational risks as well as risks linked to the use of collateral arrangements.

General fund risks - to be read in conjunction with the fund specific risks above. Counterparty - Counterparty risk may materialise if an entity with which the fund does business becomes unwilling or unable to meet its obligations to the fund. **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. **Hedging -** Hedging measures involve costs and may work imperfectly, may not be feasible at times, or may fail completely. **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.

IMPORTANT INFORMATION

Effective 1 October 2022, the fund changed its name from Responsible Diversified Income Bond Fund to Diversified Income Bond Fund.

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