



T. ROWE PRICE FUNDS SICAV

## Japanese Equity Fund – ESG Report

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

As at 31 March 2024

### ESG INTEGRATION APPROACH

- The Japanese Equity Fund uses environmental, social, and governance (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 Japanese Equity Fund applies an active, growth-oriented approach in order to identify companies with the potential for either growth or relative improvement. We look for such opportunities in industries where the outlook over time is becoming more attractive and is conducive to profitable growth. Our primary emphasis is on company fundamentals, which include the consideration of environmental, social, and governance factors. We find this process yields an ESG-friendly set of companies; however, we also screen the portfolio using T. Rowe Price's proprietary RIIM analysis at regular intervals. This helps us understand the ESG characteristics of the portfolio and makes us aware of any elevated exposures to specific ESG factors.
- 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 widely diversified portfolio of shares of companies in Japan. 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.

**This marketing communication is for investment professionals only. Not for further distribution.**

## 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.

Tokio Marine Holdings (1<sup>st</sup> Quarter 2024 Engagement)

<b>Focus</b>	Environment, Social, Governance
<b>Company Description</b>	Tokio Marine Holdings (Tokio Marine) is a large property and casualty insurer.
<b>Engagement Objective</b>	We engaged with the company for a discussion on cross-shareholdings, board composition, remuneration, the BigMotor scandal and premium fixing issues, sustainability, and diversity, equity, and inclusion (DEI).
<b>Participants</b>	From Tokio Marine: Chief Financial Officer (CFO); Investor Relations Manager From T. Rowe Price: Head of Governance, EMEA & APAC; Responsible Investing Analyst; Corporate Governance Analyst
<b>Engagement Outcome</b>	<p>We voted against Chair Nagano and President Komiya at the 2023 annual general meeting (AGM) because the level of cross-shareholdings was 63%, well above the 20% of net assets hurdle in our voting policy. It was encouraging to see the company's target of reducing cross-shareholdings to 30% in 2026. The company will disclose the mid-term plan in May 2024 and emphasized that it will continue to reduce cross-shareholdings from 2026 onwards. Turning to board composition, the majority of board members joined since 2020 and many of the long-tenured directors retired. Among the new board members is the first non-Japanese director (fluent in Japanese), a female director, and a director with a strong background managing large corporations. We also discussed various remuneration issues.</p> <p>In August 2023, a major fake insurance claims scandal came to light at the BigMotor used car dealerships. Tokio Marine was the first company to detect the fraud and immediately stopped introducing customers to BigMotor repair shops. It also offered customers safety check support, prompted insurance grade adjustments, and enhanced the claims adjustment system. Tokio Marine is one of three companies that received a premium fixing order in September 2023; it will submit its response to regulators, due to be submitted by end of February 2024 and will disclose more information after this.</p> <p>Tokio Marine left the Net Zero Insurance Alliance (NZIA) in 2023 but remains committed to achieving net zero across its operations, underwriting book, and investment portfolio by 2050. The most significant challenge for the company is decarbonizing its underwriting book; there is little methodological clarity on how companies should go about quantifying insurance-associated emissions and how to engage with clients on this topic. Management has established an interim target to engage with 200 large corporate customers. We suggested the company provide additional detail on the process it used to calculate this and how it is engaging with clients on this topic. The company intends to publish updated information in this area in early 2024. We also suggested that Tokio Marine regularly disclose its exposure to "green underwriting". From an operational emissions standpoint, the company feels it is on track to achieve its target to reduce scope 1-2<sup>1</sup> emissions by 60% by FY2030 versus FY2015.</p> <p>Tokio Marine has a target to increase female representation at management level to 30% by 2030. However, while the setting of this goal is positive, the company did not provide clear visibility on how it intends to achieve such a meaningful step-up in representation.</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.

## Toyota Industries (1<sup>st</sup> Quarter 2024 Engagement)

<b>Focus</b>	Environment, Governance
<b>Company Description</b>	Toyota Industries is part operating entity (auto parts, engine and vehicle assembly for Toyota Motor) and part holding company.
<b>Engagement Objective</b>	We engaged with the company for a discussion on cross-shareholdings and a product controversy.
<b>Participants</b>	From Toyota Industries: Head of Securities & Investor Relations (IR); Manager, Securities & IR From T. Rowe Price: Head of Governance, EMEA & APAC; Portfolio Managers; Investment Analyst
<b>Engagement Outcome</b>	<p>We asked for the meeting to explain our voting at the June 2023 annual general meeting (AGM), and to inform our voting at the 2024 AGM. There were three separate issues which informed our voting at the 2023 AGM: (1) Toyota Industries' single gender board; (2) its allocation of 24% of its net assets to cross-shareholdings, which exceeds the 20% hurdle in our voting policy; and (3) Japan's Ministry of Land, Transport and Tourism revoking the company's certification for forklift truck production in April 2023, because of fraudulent emissions testing from engines produced in 2009 and 2014.</p> <p>For these three reasons, we voted against the Chair. We voted against the President because of the product testing controversy. The President stepped down at the end of the AGM, and was replaced by a new President, who is new to the board. We voted against him because the Board is single gender.</p> <p>The company explained that the new President is aware of investors' expectations regarding board gender diversity. A search has commenced to appoint a female independent outsider, but the company was unable to say what skills and experience the candidate profile would prioritize as well as when it expected to make the appointment.</p> <p>Turning to cross-shareholdings, the company said that it is looking to verify the reason for each holding, taking into consideration both qualitative (business rationale, impact on counterpart, importance of relationship) and quantitative factors. It is seeking to reduce the number of cross-shareholdings over time, but that it is not ready to state the timing or scale of the unwinding. Although Toyota Motor was the largest shareholder at the time of the AGM, with a 23.5% shareholding, the company asserted that it has no control over the operations of Toyota Industries.</p> <p>On the subject of product controversy due to fraudulent emissions testing, the company confirmed the work of the special investigating committee is still ongoing and no timeline for completion of the work has been provided. However, certain process changes have been implemented in advance of the issuance of the final report. Previously development personnel served on certification teams. Now development personnel do not serve on certification teams, and additional headcount has been provided to the certification approval team. A culture transformation program across the company is placing renewed emphasis on regulatory compliance. Once the final report is received, the company will provide an update to investors.</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.

## 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	51	78.1	1,275	83.2
● Orange	11	19.7	146	15.2
● Red	0	0.0	2	0.6
● Not in scope / not covered	1	0.6	725	1.0
● Cash	1	1.7	0	0.0
<b>Total</b>	<b>64</b>	<b>100.0</b>	<b>2,148</b>	<b>100.0</b>

● No/few Flags ● Medium Flags ● High Flags

The comparator benchmark of the Fund is the TOPIX 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 Exposure %	Fund Exposure %
Sustainable Investments	10.0%	17.2%
Environmental Objectives	0.5%	9.8%
Social Objectives	0.5%	7.4%

**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. Style - Style risk may impact performance as different investment styles go in and out of favor depending on market conditions and investor sentiment.

**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 for TOPIX data: TOPIX. Tokyo Stock Exchange, Inc.

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.

**This material is being furnished for general informational and/or marketing purposes only.** The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date noted on the material and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

**DIFC** – Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd which is regulated by the Dubai Financial Services Authority as a Representative Office. For Professional Clients only.

**EEA** – Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

**Hong Kong** – Issued by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road, Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

**Singapore** – Issued in Singapore by T. Rowe Price Singapore Private Ltd. (UEN: 201021137E), 501 Orchard Road, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

**Switzerland** – Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. First Independent Fund Services Ltd, Klausstrasse 33, CH-8008 Zurich is Representative in Switzerland. Helvetische Bank AG, Seefeldstrasse 215, CH-8008 Zurich is the Paying Agent in Switzerland. For Qualified Investors only.

**UK** – This material is issued and approved by T. Rowe Price International Ltd, Warwick Court, 5 Paternoster Square, London, EC4M 7DX which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

The sub-funds of the T. Rowe Price Funds SICAV are not available to US persons, as defined under Rule 902(k) of the United States Securities Act of 1933, as amended ("Securities Act"). The shares of the funds have not been nor will they be registered under the Securities Act or under any state securities law. In addition the funds will not be registered under the United States Investment Company Act of 1940 (the "1940 Act"), as amended and the investors will not be entitled to the benefits of the 1940 Act. Provided to global firms in the US by T. Rowe Price Investment Services, Inc.

©2024 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc.

202312-3276222

202404-3515835