

T. ROWE PRICE FUNDS SICAV

Emerging Local Markets Bond Fund – ESG Report

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

As at 31 December 2023

ESG INTEGRATION APPROACH

- The Emerging Local Markets Bond Fund uses environmental, social, and governance (ESG) integration as part of its investment process. By incorporating 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 deliver 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 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.)
- We seek to build a best-ideas portfolio through bottom-up research that emphasizes the best risk-adjusted value across the opportunity set, while also ensuring appropriate diversification for risk considerations. Our focus is primarily on sovereign debt denominated in the currency of the respective country, and we aim to integrate proprietary research and relative value analysis with a consideration for the ESG profile of the sovereign. We establish an independent credit rating by country and aim to add value through active country, currency, and individual security selection decisions.
- 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 50% of the value of its portfolio invested in issuers and/or securities that are rated as 'Green' by the T. Rowe Price proprietary Responsible Investor Indicator Model (RIIM). The fund applies the T. Rowe Price RIIM Rating Criteria. 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 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 emerging market issuers, with a focus on bonds that are denominated in the local currency. 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 50% of the value of its portfolio invested in issuers and/or securities that are rated as 'Green' by the T. Rowe Price proprietary Responsible Investor Indicator Model (RIIM). 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 and debt securities. 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.

Ipoteka Bank (3rd Quarter 2023 Engagement)

Focus	Environment, Social
Company Description	Ipoteka Bank (Ipoteka) is a bank based in Uzbekistan.
Engagement Objective	We engaged with the bank to conduct due diligence on its sustainable strategy and to provide recommendations relating to disclosure and target setting.
Participants	From Ipoteka: Deputy Head of Investor Relations From T. Rowe Price: Portfolio Manager; Investment Analyst; Responsible Investing Analyst
Engagement Outcome	<p>The state-owned bank currently has limited disclosure on environmental and governance topics. However, Ipoteka is currently in the process of being privatized and acquired by OTP Bank, and we expect disclosure will improve over time.</p> <p>The bank developed a Social & Environmental Risk Management Division in 2020 to improve its compliance procedures and to integrate environmental and social factors into its credit approval process. As part of the OTP acquisition, Ipoteka is developing a formal 2024–2028 ESG strategy that will include various short-term targets/commitments.</p> <p>A presidential decree was released in 2022 to reduce emissions and support Uzbekistan's nationally determined contributions (NDCs), or the country's national climate actions, as required by the Paris Agreement. The bank is beginning to measure its scope 1-2¹ emissions and we encouraged it to set a scope 1-2 emissions reduction target as part of its upcoming ESG strategy.</p> <p>Since 2020, Ipoteka has been assessing all credit applications for ESG risks and classifying counterparties based on the International Finance Corporation's (IFC's) standards. It has also developed a coal exclusion policy and is aiming to reduce its coal exposure to zero by 2025. Despite this progress, the bank does not measure its financed emissions, and we recommended it begin doing so on its balance sheet to bring it in line with industry peers. The bank is also heavily involved in lending to the agricultural sector and wants to focus its green lending on water-saving projects within this sector, with the support of government subsidies.</p> <p>Ipoteka does not publicly report on various employee-related metrics such as employee satisfaction and turnover. It explained that it conducts annual surveys, and 60% of employees were satisfied with the bank. Ipoteka also provides English language classes to help develop talent and offers services to new international customers. The employee turnover rate for 2022 (9.4%) was also below that of industry averages (12%).</p> <p>The bank does not publicly report on various customer-related metrics such as customer satisfaction and customer complaint volumes. Ipoteka explained it conducts customer satisfaction surveys biannually but does not report complaint volumes.</p> <p>We were encouraged by the bank's intention to develop a formal ESG strategy and made several disclosure and target-setting recommendations. We will monitor for Ipoteka to publish its ESG strategy in the first quarter of 2024.</p>

¹ 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.

Banca Transilvania (3rd Quarter 2023 Engagement)

Focus	Environment, Governance
Company Description	Banca Transilvania is a large bank in Romania.
Engagement Objective	We engaged with the bank on financed emissions, sustainable finance, and governance.
Participants	<p>From Banca Transilvania: ESG Director; Corporate Governance Director; ESG Expert, Investor Relations</p> <p>From T. Rowe Price: Head of Governance, EMEA & APAC; Investment Analysts (2), Responsible Investing Analyst</p>
Engagement Outcome	<p>We engaged with Banca Transilvania (BT) to discuss the viability of setting financed emission reduction targets and to conduct due diligence on its blue financing opportunities.</p> <p>Financed emissions</p> <p>The bank is one of a handful of banks globally that have measured financed emissions across the entire balance sheet (excluding unsecured consumer lending and credit cards). The bank, however, flagged the calculations are based on estimates and want to gain confidence in these estimates before setting any targets. BT is looking to provide additional disclosure on the financed emissions tied to the agriculture, transportation, and construction sectors, and we recommended the bank set financed emission reduction targets. We also recommended it establish a framework to evaluate the credibility of clients' transition plans to bring it in line with global best practice.</p> <p>Sustainable finance</p> <p>The bank received EUR 100 million from the International Finance Corporation (IFC) in 2022 to invest in blue projects in Romania, and it expects to allocate this capital by 2027. The IFC reported that Romania needs EUR 3 billion of private sector financing in blue-related projects by 2027, but the bank does not believe it has sufficient blue assets to issue a blue bond to finance this. The bank is considering publishing a sustainable financing framework by the end of 2023 ahead of a potential sustainable bond issue, where sustainable water may be an eligible category.</p> <p>Governance</p> <p>We voted against the performance plan at the 2023 annual general meeting as the vesting period was less than three years. The bank explained that the performance plan had a three- year vesting period for middle management and five years vesting for top management, plus a one-year holding period, so the vesting period should not be an issue at future meetings. We shared our feedback relating to variable pay disclosure, and BT highlighted that it would look to disclose more on the key performance indicators. We asked whether the company would provide a separate agenda item to vote on the remuneration rate. The bank explained this was not possible as when the Shareholder Rights Directive II (SRDII) was transposed into Romanian national law to implement the say on pay requirement, the remuneration report must be placed within the Board of Directors' report and cannot be presented separately.</p> <p>We were pleased with the progress the bank has made to date in measuring its financed emissions, and we made disclosure and target-setting recommendations to bring the bank in line with global peers.</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.

The data in the table below is the RIIM Weighted Average Score which is a combined Environmental, Social and Governance score for the portfolio, and which is used to measure the Sustainability Indicator for the Fund. It differs to the overall RIIM Indicator Score which is determined by the worst of the Environmental, Social and Governance scores.

	Portfolio		Benchmark	
	No. of securities	% weight	No. of securities	% weight
● Green	89	80.6	302	87.7
● Orange	21	15.9	45	12.3
● Red	0	0.0	0	0.0
● Not in scope	21	1.1	0	0.0
● Not covered	0	0.0	0	0.0
● Cash	1	2.5	0	0.0
Total	132	100.0	347	100.0

● No/few Flags ● Medium Flags ▲ High Flags

The comparator benchmark of the Fund is the J.P. Morgan Government Bond Index- Emerging Markets Global Diversified. 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 to maintain at least 50% of the value of its portfolio invested in issuers and/or securities that are rated "Green" by the T. Rowe Price proprietary Responsible Investor Indicator Model ("RIIM").

The percentage exposure of the fund in issuers and/or securities that are rated "Green" is:

	Target Minimum Exposure %	Fund Exposure %
Green Issuers/Securities	50.0%	80.6%

RISKS - The following risks are materially relevant to the fund (refer to prospectus for further details): China Interbank Bond Market - The China Interbank Bond Market may subject the fund to additional liquidity, volatility, regulatory, settlement procedure and counterparty risks. The fund may incur significant trading and realisation costs. Contingent convertible bond - Contingent Convertible Bonds may be subject to additional risks linked to: capital structure inversion, trigger levels, coupon cancellations, call extensions, yield/valuation, conversions, write downs, industry concentration and liquidity, among others. Country (China) - Chinese investments may be subject to higher levels of risks such as liquidity, currency, regulatory and legal risks due to the structure of the local market. Country (Russia and Ukraine) - Russian and Ukrainian investments may be subject to higher risks associated with custody and counterparties, liquidity, market disruptions, as well as strong or sudden political risks. 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. Distressed or defaulted debt securities - Distressed or defaulted debt securities may bear substantially higher degree of risks linked to recovery, liquidity and valuation. 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. 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. 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. 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.

ADDITIONAL DISCLOSURES

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