



SELECT INVESTMENT SERIES III SICAV

T. Rowe Price Japanese Equity Fund – ESG Report

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

As at 31 December 2023

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. In addition, 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.
- 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.

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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.

Recruit (3rd Quarter 2023 Engagement)

| | |
|-----------------------------|---|
| Focus | Environment, Social, Governance |
| Company Description | Recruit is a Japanese human resources and recruitment company |
| Engagement Objective | The main focus of our engagement was to discuss the company's progress in coming up with ways to measure more accurately its key performance indicators (KPIs) for sustainable end products. |
| Participants | From Recruit: Head of Human Resources and ESG, Investor Relations Representative From T. Rowe Price: Investment Analyst, Responsible Investing Analyst |
| Engagement Outcome | <p>We discussed the progress made by the company on devising ways of measuring its KPI of the time it takes to get hired through Recruit's platforms more accurately, moving from a carbon-neutral to a net zero target, and aligning its climate-related disclosure with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.</p> <p>On sustainable end product, Recruit has set a target to reduce the time it takes to get hired through its platforms by half by FY2030. To measure such progress accurately, the company is trying to exclude external market factors such as the macro economy and the labor market, which it says is challenging. It also wants to rely less on results from job seekers' surveys and devise a more systematic way of measuring this KPI.</p> <p>Recruit wants to focus on its current carbon neutrality target before moving to net zero. The company mentioned that reducing scope 3¹ emissions remains a challenge. Its current focus is to educate its suppliers on measuring their emissions in ways that are aligned with global standards before encouraging them to set some emissions-reduction goals.</p> <p>The company became a TCFD supporter in FY2022 and conducted scenario analysis in line with the TCFD framework in its 2022 Annual Report.</p> <p>Data privacy has been identified as the most material risk at Recruit. The Risk Committee oversees data privacy issues at the group and regularly reports to the Board (via the chief operating officer) on such topics.</p> <p>The company said it had taken a step closer to achieving its ambitious target of reaching gender parity on the Board of Directors by 2030 with the hiring of Katrina Lake as an independent director. She was formerly the executive chair of Stitch Fix. With her appointment, the percentage of board members who are women has risen to 38% from 25%. Katrina is the first foreign national to be appointed to the board.</p> <p>We will continue monitoring progress on the company's KPI for measuring time to hire and on it moving to a net zero target.</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.

Nitori (3rd Quarter 2023 Engagement)

| | |
|----------------------|---|
| Focus | Environment, Social |
| Company Description | Nitori is a Japanese retailer of furniture and home fashion items. |
| Engagement Objective | We engaged with the company for a discussion focused on circular business and the risk of child labor usage in its supply chain. |
| Participants | From Nitori: Sustainable Development Goals (SDGs) Team From T. Rowe Price: Investment Analyst, Responsible Investing Analyst |
| Engagement Outcome | <p>Nitori is focused on the most material ESG issues for the business, and we see a lot of momentum on ESG topics. The company has a short list of material ESG priorities spanning climate change adaptation, waste, diversity, and sustainable procurement. However, given the early stage of implementation, highly material risks such as human rights and deforestation in supply chains remain unmanaged.</p> <p>Circular business: Solving for end-of-life waste is a strategic priority for Nitori. The company believes the first step to this is developing a post-consumer waste collection model. Several pilots are underway here. Nitori sees the need to improve its customer perception from low cost to high quality and durability. The company highlighted that easing the process of furniture disposal and recycling is a major business opportunity that would encourage customers. This year, it ran a nationwide program in Japan to process end-of-life curtains for recycling. Another current initiative is a similar program for carpets; Nitori has established partnerships with cement companies to process carpets into cement. The current bottleneck is the cost of logistics and collection.</p> <p>Sustainable procurement: Nitori is in the process of establishing a traceability process to monitor suppliers for ESG risk (there is currently no risk management in place). We asked specifically about child labor risks in Vietnam. The company confirmed that for its own manufacturing sites there is a robust process to prevent such activity. However, for its suppliers, the traceability system is yet to be rolled out so the company could not 100% confirm that there is no child labor risk.</p> <p>Sustainable timber: Currently, Nitori does not mention sustainable sourcing or deforestation-free timber. The company believes addressing this will be critical for consumer perception and for overseas expansion.</p> <p>Emissions and Net Zero: Nitori has set ambitious goals for scope 1-2¹ emissions. Scope 3 emissions are not yet quantified or addressed, and this should be a next step.</p> <p>Governance: We had some concerns around Nitori's corporate governance, most notably the perception of it being a controlled company with very limited investor relations (IR) activity. Nitori has moved to appoint more independent and qualified directors to the Board. The company is also actively stepping up its IR efforts but understands there is still a human resources constraint here. Ultimately, the company signaled that improving corporate governance perception is a strategic priority.</p> <p>We are encouraged that Nitori is setting key performance indicators and prioritizing the most material ESG risks facing the business.</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.

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 | 49 | 79.1 | 1,257 | 83.5 |
| ● Orange | 11 | 19.9 | 155 | 14.7 |
| ● Red | 0 | 0.0 | 1 | 0.6 |
| ● Not in scope | 2 | 0.6 | 742 | 1.1 |
| ● Not covered | 0 | 0.0 | 0 | 0.0 |
| ● Cash | 1 | 0.5 | 0 | 0.0 |
| Total | 63 | 100.0 | 2,155 | 100.0 |

● 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% | 16.5% |
| Environmental Objectives | 0.5% | 7.6% |
| Social Objectives | 0.5% | 8.9% |

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.

IMPORTANT INFORMATION

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