



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 2022

ESG INTEGRATION APPROACH

- The T. Rowe Price 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 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 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. It covers around 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 (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 T. Rowe Price 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. As such, our primary emphasis is on company fundamentals, which include the consideration of environmental, social, and governance factors. We find that this process tends to yield 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.

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.

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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, 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.

Hikari Tsushin (3rd Quarter 2022 Engagement)

Focus	Social, Governance
Company Description	Hikari Tsushin (Hikari) is an office automation and telecommunications business.
Engagement Objective	We engaged with Hikari on governance matters and to encourage better ESG disclosure.
Participants	From Hikari: Investor Relations representative From T. Rowe Price: Head of Governance, EMEA and APAC; Responsible Investing Analyst
Engagement Outcome	<p>Due to concerns about board independence being too low, we voted against the reelection of Hikari's chair and president at the company's 2022 annual general meeting (AGM). Board independence, at 30%, was only slightly improved on the prior year's 25%. The company plans to be compliant with the expected one-third independence by the 2023 AGM, either by adding a new independent director or asking an inside director to leave the board.</p> <p>The company established an Investment Audit Committee in June 2022. The committee meets quarterly to check for alignment between the investments made and the policy framework. It comprises one insider and two outsiders. Some investors have said they should have a voting policy guideline for their shares, and we supported that suggestion.</p> <p>Hikari is most focused on governance, and the social aspects of ESG come next. It has good female representation at the employee level (42%), but less at the managerial level (18%). It did appoint a female member to the board in June 2022.</p> <p>The company has an "opinion box" system for employee feedback, which it believes helps prevent harassment as it allows for direct communication with management. Its employee share plan is another way to align interests and boost engagement.</p> <p>We offered to assist the company in defining an ESG strategy and share best practices on ESG disclosure. The first steps we highlighted included undertaking a materiality assessment, adding dedicated ESG headcount, working with a consultant, and following the Sustainability Accounting Standards Board (SASB) guidelines.</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. T. Rowe Price may have ongoing business and/or client relationships with the companies mentioned in this report.

Sompo (1st Quarter 2022 Engagement)

Focus	Environmental, Social
Company Description	Sompo is a Japanese property and casualty insurer.
Engagement Objective	We engaged with Sompo to conduct due diligence on the company's net zero target and to gauge its performance against various social metrics.
Participants	From Sompo: Chief Sustainability Officer, Investor Relations representative; Corporate Financial Planning representative From T. Rowe Price: Responsible Investing Analyst
Engagement Outcome	<p>We met with Sompo to provide feedback on its net zero emissions targets and a range of social indicators.</p> <p>Sompo set net zero targets for its operational emissions (2030) and financed emissions (2050) in late 2021. It expects to achieve the 2030 target through increased renewable energy use but is still working on its roadmap to achieve the 2050 target and will communicate this to investors in 2022. It expects to take a hybrid approach of working with companies to help facilitate the transition (it was the first Japanese insurer in 2021 to stop providing insurance and investment services to the coal power industry). The company also intends to roll out ESG-related products to facilitate the transition, but these remain a small part of its business today. We encouraged the company to lay out a roadmap to meet these targets.</p> <p>Sompo has a series of human capital initiatives and has set 2023 targets for employee engagement, diversity, equity, and inclusion (DEI). We will measure progress against these targets.</p> <p>The company's employee turnover has marginally increased over time. While it is not concerned with the absolute levels, Sompo pointed to departures in the nursing care business during COVID as the main reason behind the increase. The company has since increased compensation and provided extensive training within this segment which resulted in a reduction in the turnover rate for 2021.</p> <p>The company provided an update on its customer satisfaction metrics, including both its Net Promoter Score (NPS) and results from a third-party survey. Its NPS increased to 58.1, from 47.1, between 2019 and 2020. Sompo also highlighted a third-party survey which ranks all Japanese insurers on customer satisfaction and treatment. Sompo's score in 2020 increased to 728/1000, from 686, the highest score across all Japanese insurers.</p> <p>We commended the company for publishing a Task Force on Climate-Related Financial Disclosures (TCFD) report but made some disclosure recommendations for its metrics and targets which have largely focused on its operational emissions. We recommended the company provide analysis around how physical and transitional climate risks may impact its product suite.</p> <p>We gained a better understanding of the company's comprehensive approach to ESG, which includes detailed reporting and several key-performance indicators and targets. Over the next two years, we will monitor the company's progress against its human capital targets and the extent to which it seeks to improve its TCFD disclosure to focus on physical and transition climate risks.</p>

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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. **Volatility** - The performance of the fund has a risk of high volatility.

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.

IMPORTANT INFORMATION

Effective 1 October 2022, the fund changed its name from Responsible Japanese Equity Fund to Japanese Equity Fund.

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