



T. ROWE PRICE FUNDS SICAV

## US Aggregate Bond Fund – ESG Report

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

As at 31 December 2023

### ESG INTEGRATION APPROACH

- The US Aggregate Bond Fund uses ESG integration as part of its investment process. This means incorporating environmental, social and governance factors to enhance investment decisions. Our central mission is to help our clients reach their long-term financial goals and we believe that incorporating ESG factors into our investment process alongside financials, valuation, macro-economics and other factors is consistent with that objective. 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 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.)
- The process of ESG integration is embedded at both the research and portfolio management level. Our research process incorporates the expert opinions of our dedicated, in-house Responsible Investing Team, including the quantitative assessment of risk from our Responsible Investing Indicator Model (RIIM\*). Our Analysts embed ESG factors into their independent credit ratings and their assessment of issuer valuations. The portfolio managers then balance and monitor these ESG factor exposures at the portfolio level.
- 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 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 US bonds. 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 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.

## Meta Platforms (4<sup>th</sup> Quarter 2023 Engagement)

<b>Focus</b>	Social
<b>Company Description</b>	Meta Platforms (Meta) operates a leading social media platform; its four major properties are Facebook, Instagram, WhatsApp, and Messenger.
<b>Engagement Objective</b>	We engaged with the company on youth safety, wellness, and responsible artificial intelligence (AI).
<b>Participants</b>	<p>From Meta Platforms: Head of ESG, General Counsel, Investor Relations Representative</p> <p>From T. Rowe Price: Portfolio Managers, Head of Corporate Governance, Responsible Investing Analyst</p>
<b>Engagement Outcome</b>	<p>Our objective was to learn how Meta is measuring the effectiveness of the myriad tools created to protect young people on the platform and ask that Meta disclose more of this information where possible.</p> <p>We believe concrete metrics related to the effectiveness and use of Meta's health and safety tools would support the company's claim that health and safety is a top priority. On the call, Meta could not say what percent of the platform currently uses these tools or whether the health and safety teams are tracking metrics related to the products. The company provided some detail about outcomes from product trials and followed up in an email with more data on the effectiveness of several of the measures it has introduced. These included: alternate topic "nudges" built to encourage teens to switch to a different topic if they have been scrolling the same one for some time; "Take a Break" reminders; teen private default settings on Instagram; Hidden Words; the ability to multi-block; and making it easier for minors to report other users.</p> <p>We recommended concrete metrics related to the health and safety tools would support Meta's claim that health and safety is a top priority. The company told us that our feedback to disclose how successful those tools are at improving health and safety outcomes was helpful, and we have been informed Meta is still internally discussing what data can be shared. We view the issue of youth safety as one that drives material reputational damage to the brand, and if reputational issues worsen, it could draw more regulatory scrutiny. We have discussed child safety with the company before on several occasions.</p> <p>Last year, there was a shareholder proposal that asked Meta to define its own key performance indicators related to children's safety and measure improvements against those metrics. We did not back it because the proposal had prescriptive elements, which we generally do not support. After learning in this engagement that Meta is not likely tracking metrics at all, we have less confidence that the company is taking this issue seriously. In light of this and in the wake of the lawsuit recently submitted by 42 attorneys general, we could be more likely to escalate the issue by supporting a shareholder proposal aimed at this topic in addition to the votes against the re-election of the directors we already cast due to governance concerns.</p> <p>In terms of monitoring, we are looking for Meta to introduce metrics related to the adoption and success of mental health and safety tools to be deployed on its platforms.</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.

## Wells Fargo (3<sup>rd</sup> Quarter 2023 Engagement)

<b>Focus</b>	Environment, Social, Governance
<b>Company Description</b>	Wells Fargo is a diversified financial services company.
<b>Engagement Objective</b>	We engaged with Wells Fargo to discuss a range of ESG topics.
<b>Participants</b>	<p>From Wells Fargo: Sustainability Representative, Legal Representative, Compensation Representatives, Corporate Secretary, Investor Relations Representative</p> <p>From T. Rowe Price: Head of Corporate Governance, Responsible Investing Analyst</p>
<b>Engagement Outcome</b>	<p>We engaged with Wells Fargo to discuss a range of ESG topics, including its climate strategy, financial inclusion, a shareholder resolution, and racial equity audit.</p> <p>Wells Fargo is in line with its U.S. peers when it comes to decarbonizing its loan book but falls behind European peers in not having a framework in place to assess the credibility of clients' transition plans. It has a dedicated transition team and is working on providing additional disclosure in its upcoming ESG report. We pointed to examples of peers demonstrating best practice.</p> <p>Wells Fargo was recently dropped from underwriting a municipal bond deal in Texas, following the Texas attorney general reviewing the bank's energy policies and involvement in the Net Zero Banking Alliance (NZBA), a group of leading banks aiming to accelerate the transition of the finance sector and the global economy to net zero emissions by 2050. We discussed how the political landscape in the U.S. could influence both the pace at which Wells Fargo looks to decarbonize its loan book as well as its involvement in ESG initiatives. The company explained that it is taking a balanced approach but provided cautious language about the benefits of being a NZBA signatory; mainly, the value of the alliance as a benchmarking exercise.</p> <p>Wells Fargo has begun reporting the "social impact" it is having from various financial inclusion initiatives, including the number of customers with improved FICO (or credit) scores as part of its credit-building grant program. We recommended the bank report similar impact metrics for its Credit Close-Up program, an initiative with 11.2 million customers that provides advice on how to improve their FICO scores.</p> <p>We also discussed governance topics, including an investor-sponsored resolution that was supported by a majority of voters at Wells Fargo's 2023 shareholder meeting. The proposal asked for a report on the effectiveness of the company's programs to combat harassment of employees and discrimination in hiring. The resolution was specifically tied to the revelations in 2022 that some areas within the company had fallen short of upholding internal requirements for diverse slates of candidates to be interviewed for many open positions. The company disclosed it had found some teams were interviewing diverse candidates after the position had already been filled. Some employees who reported the activity were subject to retaliatory actions. Around 52% of shareholders supported the proposal, and the company has agreed to provide some kind of reporting. We provided guidance on what form that might take. Wells Fargo also highlighted that it is nearing completion on a previously commissioned racial equity audit.</p> <p>We made several disclosure recommendations to Wells Fargo to bring its climate strategy and financial inclusion initiatives in line with industry best practice.</p>

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## 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	591	93.5	8,778	65.1
● Orange	59	5.3	1,847	6.1
● Red	0	0.0	131	0.5
● Not in scope	10	0.2	2,202	27.7
● Not covered	0	0.0	422	0.6
● Cash	1	1.0	0	0.0
<b>Total</b>	<b>661</b>	<b>100.0</b>	<b>13,380</b>	<b>100.0</b>

● No/few Flags    ● Medium Flags    ▲ High Flags

The comparator benchmark of the Fund is the Bloomberg U.S. Aggregate Bond 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%	37.9%
Environmental Objectives	0.5%	2.0%
Social Objectives	0.5%	35.9%

**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. 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. Credit - Credit risk arises when an issuer's financial health deteriorates and/or it fails to fulfill its financial obligations to the fund. 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. 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. 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.** 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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