



POLICY STATEMENT ON ENVIRONMENTAL, SOCIAL, AND GOVERNANCE ISSUES

UPDATED AS OF SEPTEMBER 2019

BACKGROUND

At T. Rowe Price, fundamental analysis is the foundation of our investment decisions. Through our bottom-up approach, we endeavor to understand the long-term sustainability of a company's business model and the factors that could cause it to change. We believe that environmental, social, and governance (ESG) issues can influence investment risk and return and, therefore, incorporate ESG risk considerations into our fundamental investment analysis.

Accordingly, T. Rowe Price is a signatory of the Principles for Responsible Investment (PRI).¹ We support the PRI framework as an effective means to encourage better dialogue among investors and improve disclosure from companies globally. Our ESG analysis serves to complement our ultimate objective of delivering superior long-term investment returns to clients.

GUIDING PRINCIPLES

The primary responsibility for determining the impact of ESG factors on clients' investments lies with our analysts and portfolio managers, who are supported by two groups of internal investment specialists: our Responsible Investment and Corporate Governance teams. Our approach is driven by the following principles:

- 1. Collaboration**—We believe companies, investors, and governments all have a role to play in improving corporate disclosures and strengthening the sustainability of business practices over time.
- 2. Accountability**—Our investment analysts are responsible for assessing the full range of factors likely to have a meaningful impact on the company's performance, and they receive specialized resources and training to enable them to make these assessments.
- 3. Fundamental research**—We believe ESG analysis and engagement are most effective when led by experienced investors who know the company well and are best positioned to evaluate these considerations in the appropriate context.
- 4. Stewardship**—We believe our responsibilities as diligent investors do not cease with the decision to purchase a security. We maintain regular dialogue with the managements of our portfolio companies.
- 5. Materiality**—We focus on the ESG factors we consider most likely to have a material impact on the performance of the companies in our clients' portfolios.

¹Launched in 2006, the Principles for Responsible Investment (PRI) are a set of voluntary best-practice standards that asset owners and asset managers pledge to uphold in order to incorporate environmental, social, and governance (ESG) issues into their investment processes.

HOW DO WE INTEGRATE ESG ISSUES?

When we assess the suitability of an investment for our clients' portfolios, we consider a variety of factors. Broadly defined, these factors can include: the company's capital stewardship, accountability, transparency, leadership quality, strategy and execution, the competitive dynamics in its industry, its management of human capital, and its efficient use of resources.

The evaluation of ESG factors is highly dependent on the country, industry, company, and management we are analyzing. Therefore, the particular issues considered vary with each investment. Some specific examples of the broad range of ESG issues we may consider in our investment research process are:

- long-term environmental considerations, such as regulation, the availability and costs of raw materials, water, energy, and other significant inputs
- a company's incentive structure and how closely aligned it is with stated corporate strategy
- supply chain risks, work stoppages, and labor controversies
- the quality and diversity of a company's Board
- the current and potential regulatory environment, particularly with regard to highly regulated industries or controversial situations as the world's economy and industries evolve over time
- the relative quality of a company's disclosures, its degree of focus on investors' interests, and its philosophy regarding stakeholder communications and engagement

Responsibility for incorporating ESG risks into investment decisions is embedded across the research platform. At T. Rowe Price, we have analysts who are experts in their fields. They cover a specific region or sector and may well follow some companies for over 10 years. Their responsibilities include meeting the management teams, conducting site visits, and producing detailed company and industry analysis.

In order to supplement our analysts' assessment of ESG risk factors, we have internal teams of specialists that focus on responsible investment issues, corporate governance, and proxy voting. These specialists are integrated into our investment research teams. These internal experts work with our investment analysts and portfolio managers to help them understand the environmental, social, and governance issues most relevant to their investments, as well as to lead our engagement with corporate issuers on these topics.

OUR ULTIMATE GOAL: SUPERIOR LONG-TERM INVESTMENTS FOR OUR CLIENTS

All portfolios are managed to provide long-term reward commensurate with acceptable risk. By assessing and understanding the range of ESG risks, together with many other investment criteria, we believe we will be better positioned to deliver consistent, superior long-term investment returns for our clients.

WHERE TO FIND OUT MORE

For more information about T. Rowe Price's approach to stewardship and responsible investment, please visit: <http://www.troweprice.com/esg>. This site contains our Responsible Investment Guidelines, our Engagement Policy, our Proxy Voting Policies & Procedures, our Proxy Voting Records, and additional topical research and disclosure.

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