Harnessing the Power of U.S. Impact Investing to Drive Positive Change

Seeking to invest in profitable companies addressing important environmental and social problems.

September 2023

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KEY INSIGHTS

- Significantly more capital is required to help solve some of the world's most important problems. Innovative U.S. companies are uniquely positioned to drive large-scale environmental and social progress.
- More U.S. companies are appreciating the durable financial opportunities that come along with addressing key pressure points impacting the planet and communities in which they operate.
- We see potential to deliver attractive returns and positive measurable impact through thoughtful investment and engagement with U.S. companies with global reach.

The extreme events over the last few years have driven a new era of accelerated action, providing attractive opportunities to invest in companies that are helping to tackle some of the important environmental and social problems we face today. We see increasing investor desire to invest in companies that are looking to drive improvement and change across the world. We expect this momentum to continue offering a tailwind for impact-oriented investments, and particularly those in U.S. equity markets, where we expect the rate of progress to be significant.

Momentum Has Continued to Build for Environmental Sustainability and Social Equity Action

We are witnessing a step change in thinking regarding health care, social equality, and environmental protection. We are seeing policymakers, capital allocators, and businesses move beyond tentative steps into much more material action. As investment managers, we see the current environment aligning with our dual mandate of pursuing positive environmental and/or social impact, alongside financial returns.

Achieving Impact Through Publicly Listed Investments

Impact investing originated with private investments, but over the last decade, the category has broadened out to all capital markets. With approximately USD 109 trillion in global market cap, public equity markets bring tremendous scale and liquidity to impact investing. The U.S. public equity market is the largest and most liquid market with around USD 46 trillion in

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USD 5 trillion–7 trillion

Annual estimated investment required through to 2030 to meet UN SDGs.

Public Equity Markets Bring Tremendous Scale and Liquidity

(Fig. 1) U.S. markets account for almost half of the public equity opportunity set

As of June 30, 2023.
Source: Securities Industry and Financial Markets Association.

market capitalization.[1] The sheer size, combined with the innovation and leadership in areas like technology and health care makes the U.S. an extremely attractive market for impact investors to focus, in our view.

In 2015, United Nations Member States adopted “the 2030 Agenda for Sustainable Development” with 17 Sustainable Development Goals (UN SDGs) at its core, intended to help achieve a better and more sustainable future for all (Figure 4). It is estimated that it will require USD 5 trillion–7 trillion in annual investment through to 2030 to meet the UN SDGs, which means that we shall need impactful investment from all asset classes to help achieve these goals. We use the UN SDGs as our north star, and every one of our investments is aligned to one or more of those goals.

Investing for impact in public markets, however, goes beyond simply owning and capturing the economics of companies with impactful business models. It is important to direct capital toward companies that we believe are driving material impact outcomes, but also to amplify the impact being generated through deliberate company engagement, proxy voting, and the associated influence feedback loop. Thoughtful impact engagement with company management teams is a valuable tool to help influence change.

Impact investors can also strive to move company-specific environmental and social impact agendas forward by actively engaging with companies on their specific impact themes. T. Rowe Price’s strong presence and reputation in the U.S. market results in particularly effective engagements, with management teams looking to collaborate with us, in many cases, as they develop and evolve their sustainability strategies.

Dual Mandate

The dual mandate of our impact investing philosophy is to identify companies that are successfully driving positive impact while also seeking outperformance. Only companies that meet our impact criteria are considered for investment, but impact alignment is just the first step in the selection process. Those companies that qualify are then put through a rigorous financial analysis process. We evaluate prospective companies’ market position, business durability, competitive moat, and fundamental valuation in aiming to deliver strong financial results as well as positive impact.

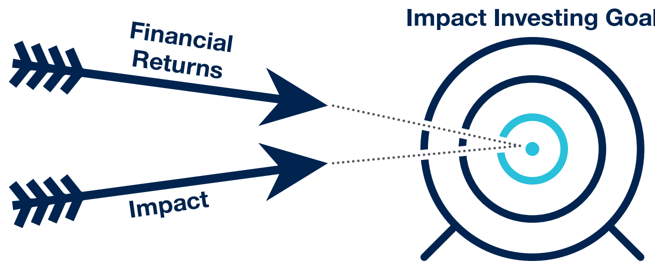
Fishing in a pond of companies that are all working toward impactful endeavors provides inherent durability and secular growth tailwinds, in our opinion. But not all companies working on impactful issues will prove to be good investments.

> “We use the UN SDGs as our north star, and every one of our investments is aligned to one or more of those goals.

[1] As of June 30, 2023.

Impact Investing Seeks Both Impact and Financial Returns

(Fig. 2) Only companies that meet these criteria are considered for selection



For illustrative purposes only.
Source: T. Rowe Price.

> The size, breadth, global reach, and technological and innovative leadership of U.S. companies position them particularly well to help solve for some of the important environmental and social problems that exist today.

It is crucial to identify the innovative leaders who are solving the problems and driving positive change. With the size, resources, and expertise at T. Rowe Price, we believe we have an advantage in finding those companies. In doing so, we believe we can deliver on both aims of our dual mandate.

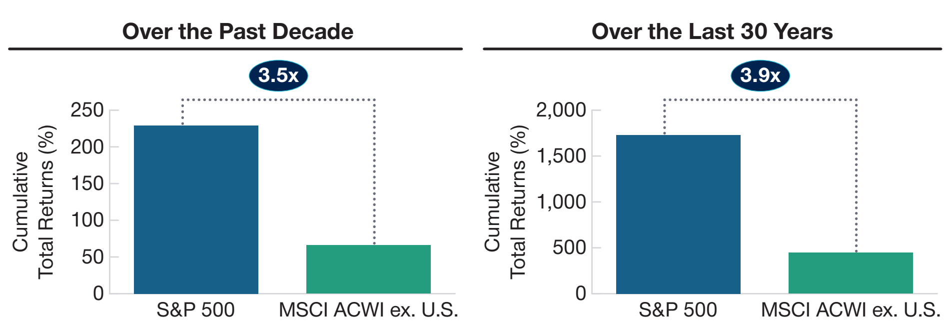
Why U.S. Markets Are So Important to Impact Investing

The size, breadth, global reach, and technological and innovative leadership of U.S. companies position them particularly well to help solve for some of the important environmental and social problems that exist today. In addition to the impact potential, U.S. equity markets also have additional benefits collectively offering relatively attractive financial investment characteristics, including strong management teams, shareholder focus, reliable reporting, and access to capital.

It is also worth highlighting that from a financial return perspective, U.S. equities have significantly outperformed other regional markets. Over the past decade, the S&P 500 has returned a cumulative 229% vs. the MSCI ACWI ex. U.S. of 66%, nearly 3.5x the upside. Over the last 30 years, the S&P 500 has returned a cumulative 1,730% vs. the MSCI ACWI ex. U.S. of 446%, nearly 3.9x.[2]

U.S. Companies Have a Long History of Strong Relative Investment Returns

(Fig. 3) Over 10- and 30-year periods they have markedly outperformed international markets



As of July 31, 2023.
Past performance is not a reliable indicator of future performance.
Source: FactSet.

[2] Source: FactSet As of July 31, 2023.

At the same time, U.S. corporations have more room for improvement in terms of sustainability and impact initiatives, which creates more opportunity for additionality. T. Rowe Price's strong brand, reputation, and overall presence in the U.S. should allow for higher levels of corporate access. As a trusted investment manager, we believe we can help guide and hasten their sustainability strategies. Importantly, investing in innovative U.S. companies with impactful business models, can directly help address important environmental and social issues not only in the U.S., but across the globe.

Impact Investing Helping to Address ESG Concerns

We have seen an increased focus on environmental, social, and governance (ESG) investment and policymaking, as some fractures have been exposed in the industry, especially around greenwashing and recent poor performance. There have been increasing questions about the viability of ESG investing, and whether investing with an ESG focus truly brings better returns. This was brought into sharp focus in 2022, when Russia invaded Ukraine and energy prices soared, sending energy and commodity stocks higher.

With impact investing, however, there are clearly defined factors that differentiate the investing strategy. Thorough stock selection criteria, along with structured measurement processes and active engagement, should help to reduce the risk of investing in greenwashing companies. Furthermore, impact investors can hold companies more accountable and report on their impact progress. If they do not meet required targets or the impact thesis deteriorates, they can be divested from.

In short, we believe that a thorough impact process helps remove much of the vagary and opaqueness that can be associated with some "ESG funds."

Providing a Better Solution for Investors Seeking to Be on the Right Side of Change

Impact investing should be a key tool in helping to position investors on the right side of societal and environmental change. Combined with fundamental analysis, deep research, and a valuation discipline, capital can be directly deployed into change-enabling companies seeking positive impact.

Importantly, impact can be complementary to other styles of investing, easily being paired with other U.S. equity products to increase portfolio strategy diversification. Traditionally, asset owners such as endowments and foundations have invested their principal capital in U.S. market index funds or active strategies with a single financial return mandate. As part of their returns, investment income can then be used to help fund grants and provide philanthropic donations. With impact investing's dual mandate of financial return and positive social and environmental change, it presents an opportunity for those same institutions to provide direct capital toward impact-oriented investments.

Asset managers act as fiduciaries for their clients with their role to help them work toward their financials goals, be it retirement or education. In aligning their investments more closely with their environmental and social values as well, it offers an additional benefit. It is our strong belief that if you can achieve attractive financial returns in U.S. markets while creating impact at the same time, then most investors will choose that over financial returns alone.

United Nations Sustainable Development Goals (UN SDGs)

(Fig. 4) 17 development goals intended to help achieve a better and more sustainable future for all

Source: United Nations.

Impact investing strategies may not succeed in generating a positive environmental and/or social impact. The incorporation of environmental and/or social impact criteria into an investment process may cause a strategy to perform differently from a strategy that uses a different methodology to identify and/or incorporate environmental and/or social impact criteria or relies solely or primarily on financial metrics. There is no assurance that any investment objective will be achieved.

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