T. Rowe Price

ESG Report

T. Rowe Price Global Focused Growth Equity Pool

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

As of 31 March 2024

ESG INTEGRATION APPROACH

- The portfolio uses 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 they balance 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 pro-actively 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 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 (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 companies we buy will typically have high quality characteristics as well, with this qualitative assessment based on our analysis of their future economic relevance. Our primary emphasis is on company fundamentals, which include the consideration of environmental, social and governance factors. We find that 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.

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.

ASML (4th Quarter 2023 Engagement)

Focus	Environment, Social
Company Description	ASML is a Dutch semiconductor equipment manufacturing company.
Engagement Objective	We engaged with ASML to discuss impact, product emissions, and circular economy topics.
Participants	From ASML: Investor Relations Representative From T. Rowe Price: Portfolio Manager, Responsible Investing Analyst
Engagement Outcome	We engaged with ASML to discuss best practices in impact measurement and the setting of key performance indicators (KPIs). We also touched on the management of end-product emissions and circular economy issues. Our goal was to highlight the importance of disclosing information that can help investors measure the impact of the company's operations, which we summarize as follows: (1) its role in enabling the development of leading-edge chips with frontier efficiency, (2) reducing energy use and greenhouse gas emissions associated with semiconductor manufacturing through improvements in extreme ultraviolet lithography (EUV) technology, and (3) nurturing the circular economy of semiconductor equipment by refurbishing machines. We asked ASML about gaining visibility on the downstream applications of chips manufactured using its machines. ASML said that this is not feasible. While ASML can see when the machines are running, they cannot get information on which company is developing the chip, nor can they track the downstream application. While we did not gain much more color on how to quantify ASML's impact on downstream energy efficiency, as leading-edge chip manufacturing is only possible with ASML EUV machines, we believe market share in EUV is a valid KPI. Improving the energy efficiency of ASML's machines is critical to reducing emissions associated with semiconductor manufacturing, and the company's measurement of this is very strong. Relevant KPIs here are: scope 3[1] emissions for product use (this is reported for ASML's full range of products in use) and energy efficiency per exposed wafer—in particular, how this has improved in further generations of machines. Since 2019, ASML has achieved a 45% reduction per wafer for NXE (EUV) machines—which clearly demonstrates ASML's role in reducing use-phase emissions through device energy efficiency. However, the real-world emission savings of ASML's products depend on renewable energy (RE) access and use by customers. We discussed the feasibility of ASML's goal for net zero emissions by 2040 as this hinges on its customers moving to RE (and many of these customers have later timelines for RE use). We think access to RE is a key risk to the impact thesis. Decreasing emissions in the semiconductor industry is a big challenge due to the limited availability of RE in some of the major manufacturing markets. The focus of ASML's product design is long term and circular. Notably, 95% of all the machines the company has created are still in use today. ASML also commits to continue to service these machines up to 2040 to ensure optimal resource use from its technologies. We imparted our views on the importance of impact measurement and KPIs, and the engagement helped us solidify our impact thesis on ASML.

[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.

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the Pool, and no assumption should be made that the securities identified and discussed were or will be profitable.

Eli Lilly (4th Quarter 2023 Engagement)

Focus	Environment, Social, Governance
Company Description	Eli Lilly (Lilly) is a U.S. biopharmaceutical company.
Engagement Objective	We engaged with the company for a discussion on 2023 shareholder meeting results, shareholder proposals, and diversity, equity, and inclusion (DEI).
Participants	From Eli Lilly: Sustainability representative; Legal representatives; Investor Relations From T. Rowe Price: Head of Corporate Governance; Responsible Investing Analyst
Engagement Outcome	We engaged with Lilly to discuss shareholder proposals. The company had several investor-sponsored proposals on its proxy in 2023. We discussed the implications of these votes. The first issue is a growing concern among faith-based investors and European stewardship teams about the use of secondary patents by pharmaceutical companies. A proposal on this issue fared very poorly in 2023, but Lilly says the same proposal has been re-submitted for another vote in 2024. These investors view patent extensions as impediments to access to medicines. We also discussed a shareholder proposal concerning DEI disclosure, which attracted 27% support. (We sided with the majority.) While lagging best-in-class practices, Lilly’s existing DEI disclosure is sufficient, in our view. The company already considers the requested information on hiring and turnover when internally evaluating its human capital performance. Nonetheless, ESG-focused investors would likely be interested in the external publication of this information and Lilly indicated that it will consider reporting this information but is waiting for regulatory frameworks (namely the Corporate Sustainability Reporting Directive, or CSRD) to drive standardized disclosure across the industry. The discussion also touched on the general state of shareholder resolutions in the U.S. and Lilly’s view that these pose significant opportunity costs for its Board and management. We also addressed Lilly’s decision, in 2023, to exercise its right to have the U.S. Securities and Exchange Commission (SEC) review proposals it deemed improper. The company was criticized by proponents and some press outlets for pursuing this type of challenge. Even though it is a valid option for issuers, Lilly indicated it is unlikely to pursue this again in 2024. We also provided feedback that Lilly should seek to publish a single document with all relevant ESG disclosures in the future. At present, the disclosures are disparate, making it more difficult to evaluate the company’s performance. This change would also make it easier for stakeholders to identify and credit Lilly for improvements it has made. Of note, as it has in the past, the Board again proposed and endorsed several improvements in shareholder rights on the 2023 proxy. The outside shareholders support them, but all of these measures failed again. This is because the Lilly Foundation remains a large holder, and its objective is to keep the company independent and Indiana-based. The company's charter requires an 80% vote to make any significant governance changes; the foundation has enough shares to alone thwart any move in this direction. In terms of next steps we will continue to monitor Lilly’s ESG reporting.

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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	83	84.5%	2,116	82.1%
Orange	8	13.9	676	17.4
Red	0	0.0	43	0.5
Not in scope/ not covered	6	0.8	6	0.0
Cash	1	0.9	0	0.0
Total	**98**	**100.0**	**2,841**	**100.0**

● No/few Flags ● Medium Flags ● High Flags

The benchmark of the Fund is the MSCI All Country World Index Net.

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