T. Rowe Price

Investment Policy on Biodiversity

Updated as of March 2024

This document reflects the investment policy on biodiversity of T. Rowe Price Associates, Inc. (TRPA), and its investment advisory affiliates, including T. Rowe Price Investment Management, Inc. (TRPIM), collectively referred to as "T. Rowe Price." TRPIM was established as a separately registered U.S. investment adviser, with a separate ESG team from TRPA. Decisions for TRPA and TRPIM ESG teams are made completely independently, but use a similar approach, framework, and philosophy.

As asset managers, it is incumbent on us to identify and analyze large systemic change, often driven by technological advances and/or regulation, and the corresponding risks and opportunities it could bring. As a key contributor to ecosystem health, biodiversity helps support human life and economic prosperity. As such, we believe biodiversity loss and ecosystem degradation are intrinsic elements of a systemic change that will likely have a material impact across the investment universe and be the source of both value creation and destruction across industries, securities, and portfolios.

At T. Rowe Price, we integrate environmental, social, and governance (ESG) factors into our investment analysis for the purpose of maximizing investment performance; this includes biodiversity-related factors. We view ESG integration as foundational—it is a core investment capability, which we have embedded in our equity and fixed income investment research platforms. With ESG integration, fiduciary duty remains top priority and, therefore, it is applied in the management of our investment products, where applicable.[1] Additionally, we recognize that some of our clients' goals are not purely financial. As such, we offer select investment products that seek to invest in ways that align with our clients' sustainable objectives.[2]

This policy provides an overview of the way T. Rowe Price integrates the analysis of biodiversity factors into the investment process and describes how biodiversity considerations can affect the investments we make on behalf of our clients.

[1] 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 investment factors such as valuation, financials, industry trends, and macroeconomics.

[2] T. Rowe Price does not offer any investment products with a sustainable objective that is solely focused on biodiversity, but we do offer investment products where biodiversity is one of several sustainable objectives pursued (such as our impact strategy range).

Background

Biodiversity is commonly defined as the living world -- i.e. plants, animals, insects and microorganisms, but it also refers to the genetic variability within and among populations of species and the distribution of species across local habitats, ecosystems and the planet. Alongside geology, soil, air and water (often referred to as geodiversity), biodiversity is a key component of natural capital. It's the relationship between geodiversity and biodiversity that yields a wide range of ecosystem goods and services that support human life. This includes basic needs (i.e. food and water) and economic goods (i.e. timber, natural fibers, medicines, etc.) as well as more complex services that help regulate the climate (i.e. natural flood defenses provided by forests, absorption of carbon by plant life, wetlands that regulate pollution, pollination of crops, nutrient cycling, decomposition of waste, etc.). The World Economic Forum (WEF) states that over 50% of global gross domestic product is highly or moderately dependent on natural ecosystems.[3] According to the WEF, investing in opportunities that directly address the threats to biodiversity has the potential to generate up to $10.1 trillion in annual business value and 395 million jobs by 2030.[4]

Similar to how greenhouse gas (GHG) emissions have been emitted into the atmosphere for centuries without a financial penalty for the pollution caused, ecosystem goods and services have been utilized for industrial gain without regard for the damage caused. This has been possible as ecosystem services are not formally traded so pricing signals have not been available to warn on degrading supply or excess demand conditions. Also contributing to the degradation of ecosystems and biodiversity has been issues around clear and secure property rights, adequate environmental policies, and enforcement of regulation.

The natural world is now experiencing exponential deterioration[5] with human activity cited as the principal driver.[6] One million species are threatened with extinction within the next few decades,[7] setting Earth on a trajectory for what biologists warn could be the sixth mass extinction.[8] Climate change has and will continue to contribute to the deterioration of biodiversity, in parallel biodiversity loss has been shown to exacerbate climate change, making the two topics fundamentally interlinked. Natural carbon sinks (both on land and underwater) play a key role in controlling climate change as they absorb significant amounts of human-generated greenhouse gas emissions. At the same time, climate change is driving biodiversity loss, through changing rainfall patterns, extreme weather events, or ocean acidification as a direct result of the degradation of natural ecosystems, with catastrophic consequences in both human and economic terms.

How biodiversity factors are considered in our investment process

We believe it is part of our fiduciary duty to understand how our investee companies, as well as sovereign, municipal, and securitized bond issuers, are assessing their exposure to natural capital-related risks and opportunities. Our practice at T. Rowe Price has been to embed ESG factors, including biodiversity-related risks and opportunities, throughout our investment research platforms. We rely on a combination of fundamental analysis (by analysts and portfolio managers), thematic research (by ESG specialist teams), and our proprietary RIIM analysis.[9] For clients with a sole mandate to deliver financial performance, biodiversity factors will be evaluated alongside financials, macroeconomics, industrial and other factors as our portfolio managers seek to select the securities that will deliver the best financial outcomes. For those clients who have elected to apply a dual financial and sustainable objective to their investment portfolio, ESG factors (including biodiversity) will be considered in a manner that can help that client to meet their sustainable investment objective.

RIIM analysis provides two key benefits for our analysts and portfolio managers. First, RIIM proactively searches for biodiversity indicators and natural capital-related controversies for corporate and sovereign issuers—this is an important feature as biodiversity data are not required disclosure, nor are they standardized like financial data. Second, RIIM provides a framework for evaluating biodiversity-related factors—in essence, it creates a common language for our analysts and portfolio managers to discuss how an investment is performing on biodiversity factors as well as enabling the ability to compare securities within the investment universe. Our evaluation of biodiversity factors focuses on consideration of sectors and business activities that are either highly dependent or heavily impactful on biodiversity, as well as key parameters such as terrestrial biome protection, protected areas and species habitat, all of which are inextricably linked to biodiversity outcomes.

[3] The World Economic Forum, September 2022.

[4] World Economic Forum, The Future of Nature and Business, July 2020.

[5] WWF Living Planet Report 2022—Building a nature-positive society. Almond, R.E.A., Grooten, M., Juffe Bignoli, D. & Petersen, T. (Eds). WWF, Gland, Switzerland.

[6] Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), Models of Drivers of Biodiversity and Ecosystem Change.

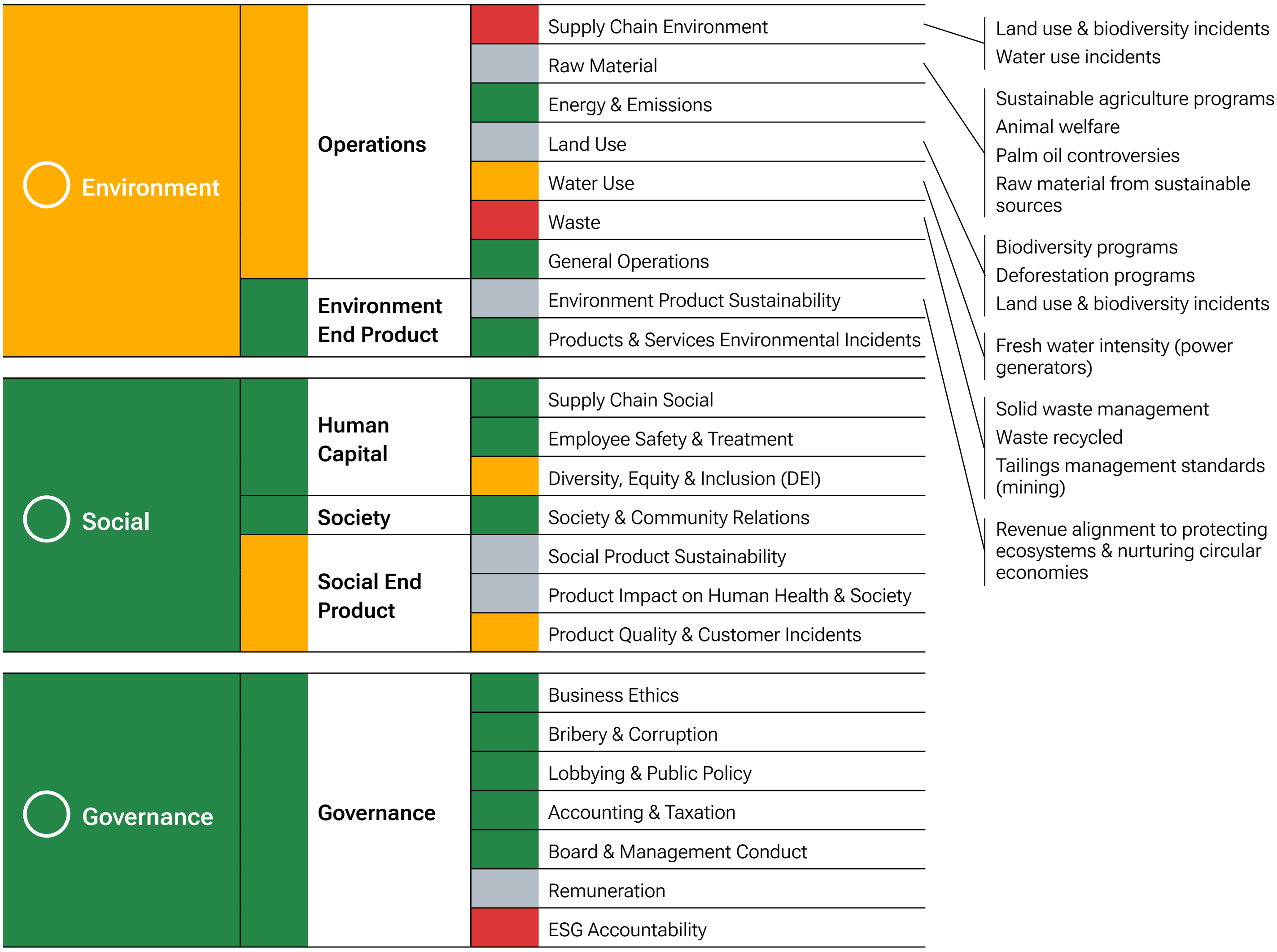
[7] IPBES Global Assessment, 2019.

[8] A mass extinction is characterized as when Earth loses more than three-quarters of its species in a geologically short interval, as has happened only five times in the past 540 million years or so. Biologists suggest that a sixth mass extinction may be underway, given the known species losses over the past few centuries and millennia.

[9] RIIM analysis refers to the proprietary responsible investing indicator models (collectively RIIM) built by TRPA and TRPIM. RIIM rates issuers using a traffic light system; where green indicates no/few ESG concerns, orange indicates medium ESG concerns, and red indicates high ESG concerns/risk. The implementation and oversight of RIIM for TRPA and TRPIM differ. The TRPA RIIM model has a framework for rating corporate, sovereign, securitized and municipal issuers, whereas the TRPIM RIIM model only has a framework for rating corporate issuers.

Equities/Corporate bonds

The graphic below shows a non-exhaustive list of data points that can serve as biodiversity indicators and how they are embedded within RIIM.



The illustrative RIIM framework and analysis will differ across ESG teams at TRPA and TRPIM and could evolve over time.

Sovereigns[10]

The illustrative graphic below shows a non-exhaustive list of biodiversity indicators and how they are embedded within our RIIM framework.

Environment	Energy & Emissions	GHG Emissions Performance	
		Policy for Energy Transition	
	Freshwater	Baseline Water Stress	
	Climate Risk	Sea Level Rise	
		Extreme Weather	
	Biodiversity	Ocean Health	Ocean Health
		Biodiversity Protection	Biodiversity & habitat Ecosystem services score
		Forest Cover	Forest area
	Adaptability	Adaptability	
Social	State & Society	State – Society Integration	
		Social Investment	
		Social Equity	
	Health	Population Health	
		Health Infrastructure	
	Human Rights	Human Rights and Rule of Law	
	Education & Employment	Unemployment	
		Education	
		Employment Opportunities	
	Infrastructure	Development	
		Services	
	Equality	Poverty	
		Gender Equality	
Governance	Governance	Voice & Accountability	
		Political Stability	
		Government Effectiveness	
		Regulatory Quality	
		Rule of Law	
		Control of Corruption	
		Non-Cooperative Tax Jurisdiction	

For illustrative purposes only.

[10] This analysis is currently conducted at T. Rowe Price Associates, Inc.

Municipal & Securitized bonds[11]

The ESG data universe for municipal and securitized issuers is developing but datasets are not yet identified that reliably integrate directly into our investment process. Instead, we use third party ESG research alongside our own fundamental research to develop a RIIM profile for each issuer, which includes consideration of biodiversity-related factors (where relevant).

Stewardship

We actively engage with issuers across asset classes on biodiversity and natural capital-related topics, particularly with those exposed to high-risk industries. Our engagements typically focus on areas such as deforestation, agricultural practices, land use change, pollution and ocean health, but can also cover other areas given the expansiveness of the topic. We find that our engagements regarding climate change and circular economies can also include biodiversity.

Engagement is usually conducted as part of a multifaceted discussion on many investment considerations for that particular issuer but occasionally can focus only on biodiversity-related factors. Given that T. Rowe Price has predominantly actively managed portfolios, our portfolio managers may elect to screen out specific issuers with onerous biodiversity-related risk if they believe it will negatively impact the investment case. As a result, the profile of invested securities across T. Rowe Price portfolios may look meaningfully different than peers—particularly passive peers. That is why our engagements on specific ESG issues like biodiversity tend to be in-depth discussions, where we believe our engagement can be effective.

If we do not see sufficient progress in a reasonable time frame, then we will typically escalate the dialogue in a number of ways. One option is to undertake collaborative engagement alongside our direct conversation. Another would be to use our vote to encourage the company to take a different approach. A third option would be to make a public statement, perhaps by pre-disclosing how we intend to vote before or around the time of the meeting.

A proxy vote against management is, in almost all cases, an escalation of our engagement efforts. We use our proxy vote thoughtfully and carefully. It is not our objective to use our vote to increase the level of conflict with the companies where our clients hold investments. Instead, our objective is to use engagement and proxy voting to increase the probability that the company will deliver better outcomes than its peers, helping to enable our clients to achieve their investment goals. A proxy vote is an important shareholder right, but its power is limited to the one day per year when a company convenes its annual meeting.

In an environment where large institutional shareholders are often rated by outside parties based on how frequently we vote against the board's recommendations, we think it is important to take into account that actively managed portfolios have the ability to select holdings with fewer ESG issues and sell holdings with ESG issues. For these reasons, we believe the voting track records of active and passive strategies are not comparable.

Collaborative engagement

Occasionally, we participate with other investors in industry-level initiatives aimed at improving disclosure or business practices on a market wide level. To facilitate such opportunities for collaborative engagement, T. Rowe Price has joined or led various initiatives to bring investors together for purposes of advocacy or engagement on biodiversity topics such as Farm Animal Investment Risk & Return (FAIRR), the UN Principles for Responsible Investment (PRI) and the EMIA (Emerging Market Investor Alliance).

Nature-related financial disclosure

One of the more difficult aspects of evaluating biodiversity-related risks and opportunities is the lack of availability of biodiversity disclosures, both qualitative and quantitative. We expect corporate issuers to adopt industry best practice regarding ESG disclosures. To this end, we have advocated for disclosures aligned to the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-Related Financial Disclosures (TCFD)—both globally recognized frameworks that emphasize financial materiality. As both these standards have been acquired by the International Sustainability Standards Board (ISSB), we will expect companies to transition to ISSB reporting over time. Additionally, for smaller issuers of private credit and syndicated loan transactions, we advocate using the ESG Integrated Disclosure Project (ESG IDP) reporting template.

[11] This analysis is currently conducted at T. Rowe Price Associates, Inc.

While biodiversity disclosure remains underdeveloped in the disclosure standards listed above, we expect it to be addressed more comprehensively over time. When it comes to specific industries with very high impact to biodiversity, we have suggested that the Task Force on Nature-Related Financial Disclosures (TNFD) can provide a good baseline for corporate issuers. Given the nascency of the TNFD standard and the implementation timeline required to make these disclosures, we consider TNFD as a recommended disclosure (as opposed to an expected disclosure) for the securities in which we invest.

Divestment

While implementing prescribed divestment rules may appeal to some, we typically do not apply blanket or category-specific exclusions without a specific mandate from our clients or if specified in product offering documentation. Instead, we prefer to focus on direct company and issuer engagement and advocacy for improved practices and disclosures. We do this for a number of reasons:

- Divesting from an asset does little to reduce real-world biodiversity impact and correspondingly does not reduce systemic risk and uncertainty; and
- Divesting may not be appropriate for an investment product with a sole mandate to deliver financial performance, as divesting from an asset limits our ability to navigate for our clients' maximum benefit if valuations or circumstances change.

However, as active investors, we do not have to own every security and will not hold securities if we deem the financial investment case to be unfavorable. It may be the case that biodiversity-related risks do make certain investments unattractive over certain time frames.

Oversight and Accountability

The Nominating and Corporate Governance Committee of the Board of Directors of T. Rowe Price has oversight on ESG investment activity at the firm. The Board regularly receives an update on ESG investment activities at T. Rowe Price. T. Rowe Price's leadership is aware of the risks and opportunities environmental, social and governance factors may pose to its business and, through our ESG specialist teams, which are responsible for developing and managing the firm's sustainability initiatives in their respective areas of focus, ensures that the agreed-upon risk measures are implemented. Day-to-day tasks involve the identification, assessment, tracking, and mitigation of ESG-related risks and opportunities (including biodiversity).

Oversight of our ESG investing policies, ESG integration, engagement, and proxy voting processes resides with the firm's ESG Investing Committees, which are made up of senior leaders at the firm. The ESG Investing Committees' primary purpose is to assist the U.S. Equity Steering Committee, International Steering Committee, Multi-Asset Steering Committee, Fixed Income Steering Committee, and TRPIM Steering Committee of T. Rowe Price Group in establishing the firm's investment advisers' policies and processes for:

- the integration of environmental, social, and corporate governance (ESG) issues;
- the development of ESG data and controls;
- the development and maintenance of ESG-related exclusions;
- the engagement with issuers on ESG issues;
- the maintenance of an appropriate set of proxy voting guidelines, and
- the oversight of ESG investing policies.

The committees report regularly, as appropriate, to the T. Rowe Price Funds'/Trusts' Board of Directors and management companies and investment advisers summarizing voting results, policies, procedures, and other noteworthy items.

Accountability for ESG investing activities starts at the top

[12] Independent Board members only.

[13] T. Rowe Price Investment Management, Inc., was established as a separately registered U.S. investment adviser, with a separate ESG team from T. Rowe Price Associates, Inc. Decisions for TRPA and TRPIM ESG teams are made completely independently, but use a similar approach, framework, and philosophy.

INVEST WITH CONFIDENCE™

T. Rowe Price focuses on delivering investment management excellence that investors can rely on-now and over the long term.

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