T.RowePrice

# Investor Climate Action Plan

Issued May 2024

INVEST WITH CONFIDENCE®

# About This Report

## We are proud to publish our first Investor Climate Action Plan (ICAP), as part of our commitment to the Net Zero Asset Managers initiative (NZAM).

Although we are still in the early stages of our journey toward decarbonization, our ICAP represents a significant step forward and builds on the progress we've made through our commitment to sustainability initiatives and programs spanning more than a decade. These enhanced disclosures will continue to evolve over time in response to increased regulations around the globe.

Our Investor Climate Action Plan covers the operations of T. Rowe Price Group, Inc. It forms part of a suite of publications that also includes our annual Task Force on Climate-Related Financial Disclosures (TCFD).

The information included in this report is representative of all T. Rowe Price investment advisory entities except Oak Hill Advisors, L.P. (OHA), unless otherwise noted. OHA is an alternative credit manager that T. Rowe Price Group, Inc., acquired on December 29, 2021. Information on OHA's approach to environmental, social, and governance (ESG) can be found on its website.

This report has been formally approved by the Nominating and Corporate Governance Committee (NCGC) of the T. Rowe Price Group Board of Directors.

All data points within this report are as of and/or for the period ending December 31, 2023, unless otherwise noted.

## Forward-Looking Statements

This report, and other statements that T. Rowe Price may make, may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act, with respect to T. Rowe Price's future financial or business performance, strategies, or expectations. Forward-looking statements are typically identified by words or phrases such as "trend," "potential," "opportunity," "pipeline," "believe," "comfortable," "expect," "anticipate," "current," "intention," "estimate," "position," "assume," "outlook," "continue," "remain," "maintain," "sustain," "seek," "achieve," and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "may," and similar expressions.

Forward-looking statements in this report may include, without limitation, information relating to anticipated changes in revenues, our operations, expenses, earnings, liquidity, cash flows and capital expenditures, industry or market conditions, amount or composition of assets under management, regulatory developments, changes in our effective fee rate, demand for and pricing of our products, new products and services, effective tax rates, net income and earnings per common share, future transactions, our strategic initiatives, general economic conditions, dividends, stock repurchases, and other market conditions.

Actual results could differ materially from those anticipated in forward-looking statements, and future results could differ materially from historical performance. Forward-looking statements speak only as of the date they are made, and T. Rowe Price assumes no duty to and does not undertake to update forward-looking statements.

We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider the risks described in our most recent Form 10-K filed with the Securities and Exchange Commission.

# Our Position on Climate Change

Addressing climate change is the focal point of our environmental strategy. We recognize that climate change poses a significant risk to the global economy and the stability of financial markets. Our position on climate is outlined below:

- **As an asset manager, we are a fiduciary.** When managing investments, we view climate change considerations through a fiduciary lens, with a focus on financial performance and risk management.
- **We support the goals of the Paris Climate Agreement because we believe that a smooth climate transition will create a more stable economic environment, reduce uncertainty, and enable business investment.** This should result in better long-term outcomes for the companies and securities in which we invest on behalf of our clients.
- **Governments lead the way.** We believe that it is the role of governments to establish clear, coordinated, and stable policies and regulations to enable markets to transition to net zero in an orderly fashion.
- **We believe in active management of climate risks and opportunities.** We believe that, over time, climate change and the transition to net zero will impact almost all securities and asset classes. As active investors, we consider climate risks and opportunities by taking environmental factors into account as part of our security analysis. Through active management, we can help our clients navigate the transition by being dynamic and responsive to changes in valuation, technology, regulation, and investment time horizons.
- **We believe in active, engaged ownership.** We engage constructively with companies to encourage a thoughtful transition to net zero, which we believe will deliver better outcomes for investors. We advocate for greater transparency for climate-related information and data. We will generally vote against independent directors in high-emitting sectors where we believe there is a data transparency gap.
- **We believe our role is to help clients determine how climate impacts their portfolios and provide solutions that meet their needs.** For most of our clients, their sole objective is risk-adjusted financial performance. For these portfolios, integration of ESG-related[1] risks and opportunities forms part of our fundamental research process. Some clients choose to extend their investment objectives beyond financial considerations alone, and in such cases, we will work with them to develop solutions that meet their needs.
- **As a corporate entity, we are committed to achieving net zero across our own operations.** We have set a target to achieve net zero in Scope 1 and 2 emissions by 2040.[2] We are committed to reducing Scope 1 and 2 emissions by 75% by year-end 2030 compared with our 2021 baseline.

[1] ESG considerations form a part of our overall research process, helping us alongside other factors to identify investment opportunities and manage investment risk. This is known as ESG integration. However, we may conclude that other attributes of an investment outweigh ESG considerations when making investment decisions.
[2] Scope 1 (direct emissions from owned or controlled sources) and Scope 2 (indirect emissions from the generation of purchased electricity, steam, or cooling). Targeting achievement by year-end 2040.

## Our Approach to Target-Setting

To support the goals of the Paris Climate Agreement to limit the increase of global temperatures to 1.5˚C, we are committed to reducing GHG emissions associated with our operations. We are targeting net zero Scope 1 and 2 emissions by 2040 and have an interim target to achieve a 75% reduction by 2030 compared with our 2021 baseline. This includes, but is not limited to, pursuing renewable electric supply and energy efficiency improvements in our operations.

While we do not currently have a Scope 3 target, we are focused on efforts to expand our disclosure of Scope 3 emissions categories and reduce our Scope 3 emissions through stewardship and partnerships. Our approach is informed by the Science Based Targets initiative (SBTi) methodology. However, since the majority of our clients have given us a mandate to pursue financial performance for their portfolios, we do not believe that setting a binding Scope 3 target and pursuing validation of our target by the SBTi would be consistent with our fiduciary duty, as this would require us to divest from select high-emitting securities. Our commitment to NZAM is made with the understanding that the aim to achieve net zero is consistent with maximizing financial returns and does not conflict with our fiduciary duty to our clients.

# Climate Transition Plan Summary

To achieve the goals of the Paris Climate Agreement, companies will need to begin working toward decarbonization. An orderly transition requires coordinated and timely action, with businesses working together with governments. The development and publication of climate transition plans, with improved disclosures and data quality, will help advance these endeavors.

Our climate transition plan has been defined by our guiding philosophy, coupled with publicly available guidance from standard-setting organizations, such as NZAM. This helps ensure that our policies are science-based and linked to transition scenarios and pathways.

We view this as a journey, and while progress has been made through our sustainability programs over the years, we are in the early stages of decarbonization.

The summary below offers an overview of the critical elements of our climate transition plan, and details can be found throughout this report. Please refer to the Investor Climate Action Plan index (page 91) for references to specific topics and where insights on them can be located.

## As an Asset Manager

### Stewardship

- Advocate for industry standards regarding climate disclosures.
- Active stewardship program that incorporates climate issues.
- Publish our engagement and proxy voting statistics.

### Products and Mandates

- Suite of impact products.
- Investment solutions that apply the Net Zero Transition Framework.
- ESG integration seeks to maximize risk-adjusted financial returns and considers climate risks and opportunities when financially material.

## As a Company

### Operations

- Achieve net zero Scope 1 and 2 emissions by year-end 2040.
- Reduce GHG emissions by 75% by year-end 2030 compared with 2021 base year.
- Initiatives to reduce Scope 3 emissions from operations.

**Engagement with stakeholders and industry**

# Stewardship

# Responsible Investing

Financially material ESG considerations form part of our overall investment decision-making process alongside other factors to identify investment opportunities and manage investment risk. At T. Rowe Price, this is known as ESG integration, and it is a core investment capability that we have embedded in our equity and fixed income investment research platforms.

The process of ESG integration takes place on two levels: first, with our research analysts as they consider ESG factors as part of the overall security valuations and ratings process; and second, with the portfolio managers as they balance ESG factor exposure at the portfolio level. Both the analysts and portfolio managers are able to leverage dedicated, in-house resources to assist them in analyzing ESG criteria.

T. Rowe Price has 40[1] ESG investment professionals: 30 in T. Rowe Price Associates (TRPA), including seven dedicated to impact investing; seven in T. Rowe Price Investment Management (TRPIM)[2]; and three in Oak Hill Advisors[3] (OHA). Our specialist ESG teams at TRPA and TRPIM provide investment research on ESG issues at the security level and on thematic topics. They have each built a proprietary Responsible Investing Indicator Model (collectively RIIM[4]), which forms the foundation of our ESG integration process. RIIM provides two key benefits: a uniform standard on due diligence of ESG factors across our investment platforms and a common language for our analysts, portfolio managers, and ESG specialists to discuss how an investment is performing on ESG and to compare securities within the investment universe.

We have developed RIIM frameworks across asset classes covering equities and corporate bonds, sovereign bonds, municipal bonds, and securitized bonds.[5] The RIIM frameworks are unique for each asset class as the level and type of ESG data available vary across asset classes.

For equities, corporate bonds, sovereign bonds, and the majority of securitized bonds, we are able to leverage ESG datasets and feed those directly into our RIIM frameworks. This allows us to generate a quantitative RIIM profile for a wide breadth of issuers. This quantitative set of scores is an important starting point in our ESG evaluation process as it helps us quickly identify any outliers, both positive and negative. Additionally, it creates a baseline of understanding of our investment universe from which we delve deeper using fundamental analysis on a narrower universe of securities. The breadth of coverage provided by using this quantitative data as a first step is also instrumental in informing our engagement program.

For municipal and some securitized issuers, the ESG data universe is still developing. As we have not yet found ESG datasets that we believe are robust enough to directly integrate into the RIIM frameworks, our ESG specialists and credit analysts conduct ESG analysis at a security level. To do this, they utilize the RIIM frameworks to ensure that a uniform standard of ESG due diligence is conducted. Our credit analysts and ESG specialists leverage third-party research and their own fundamental research to develop a RIIM profile for each issuer.

1 As at December 31, 2023.
2 T. Rowe Price Investment Management, Inc. (TRPIM), was established as a separately registered U.S. investment adviser, with a separate ESG team to T. Rowe Price Associates, Inc. (TRPA). Decisions for TRPA and TRPIM ESG teams are made completely independently but use a similar approach, framework, and philosophy.
3 OHA – Oak Hill Advisors – a T. Rowe Price company since December 31, 2021.
4 RIIM refers to the proprietary responsible investing indicator models 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. TRPA RIIM has a framework for rating corporate, sovereign, securitized, and municipal issuers, whereas TRPIM RIIM only has a framework for rating corporate issuers.
5 The implementation and oversight of RIIM for TRPA and TRPIM differ. The TRPIM RIIM covers equities and corporate bonds only. TRPA has RIIM coverage of more than 15,000 corporate issuers, 200 sovereign issuers, 1,700 municipal issuers, and 1,400 securitized issuers. TRPIM has RIIM coverage of approximately 6,500 corporate issuers. 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.

## RIIM Frameworks Across Asset Classes

**1 Identification** | **2 Analysis** | **3 Integration**

**Equities and Corporate Bonds**

1 — RIIM creates an ESG profile* for companies using third-party ESG datasets, company-reported data, and datasets created internally

**Sovereign Bonds**

1 — RIIM creates an ESG profile for sovereign issuers, leveraging datasets created by nongovernmental organizations and third parties as well as datasets created internally.

2 (Equities and Corporate Bonds; Sovereign Bonds) — A subset of securities undergoes an additional fundamental review to fine-tune our RIIM analysis. The process includes incorporating additional information and insights not provided by the quantitative dataset. Securities identified for further review can be chosen for a variety of reasons, such as ownership levels, presence of orange or red flags, stewardship targeting, and/or as part of industry reviews.

**Municipal Bonds**

1–2 — Our municipal bond analysts create an ESG rating for issuers by evaluating specific criteria for individual issuers. To establish RIIM ratings, the analysts conduct research in-house.

Environmental and social analysis leverages geospatial research tools.

**Securitized Bonds**

1–2 — Our securitized bond analysts create an ESG rating for issuers by evaluating specific criteria for individual issuers.

To establish RIIM ratings, the analysts conduct research in-house, leveraging external data sources as well as their own direct research.

Where there is overlap on issuers, the analysts can leverage RIIM scores from other asset classes.

3 (all asset classes) — **Analysts and portfolio managers incorporate ESG factors (as appropriate to their strategy) into:**

- Investment theses
- Company ratings
- Price targets
- Credit ratings
- Engagements
- Position sizing
- Proxy voting decisions

ESG integration is applied across applicable investment strategies comprising 86% of T. Rowe Price assets under management (AUM) as of December 31, 2023.[6] This includes our active and fundamental strategies across our equity and fixed income platforms. We currently do not integrate ESG analysis into our passive strategies or our cash and money market funds. Our multi-asset portfolio managers delegate the integration of ESG factors to the portfolio managers of the underlying internally managed equity and fixed income portfolios. The assessment of ESG factors for securities that are not covered by our RIIM frameworks is more qualitative in nature and is dependent on the mandate of the account in which they are held.

We share all outputs of our ESG research at an issuer or thematic level with our portfolio managers and analysts via our internal research and portfolio management systems, which are accessible via their desktops. In addition, we regularly share more comprehensive portfolio-level ESG assessments with portfolio managers.

We do not currently conduct climate scenario analysis at the portfolio or strategy level. Information on how climate-related risks and opportunities are considered is available in the TCFD-aligned sections of this report.

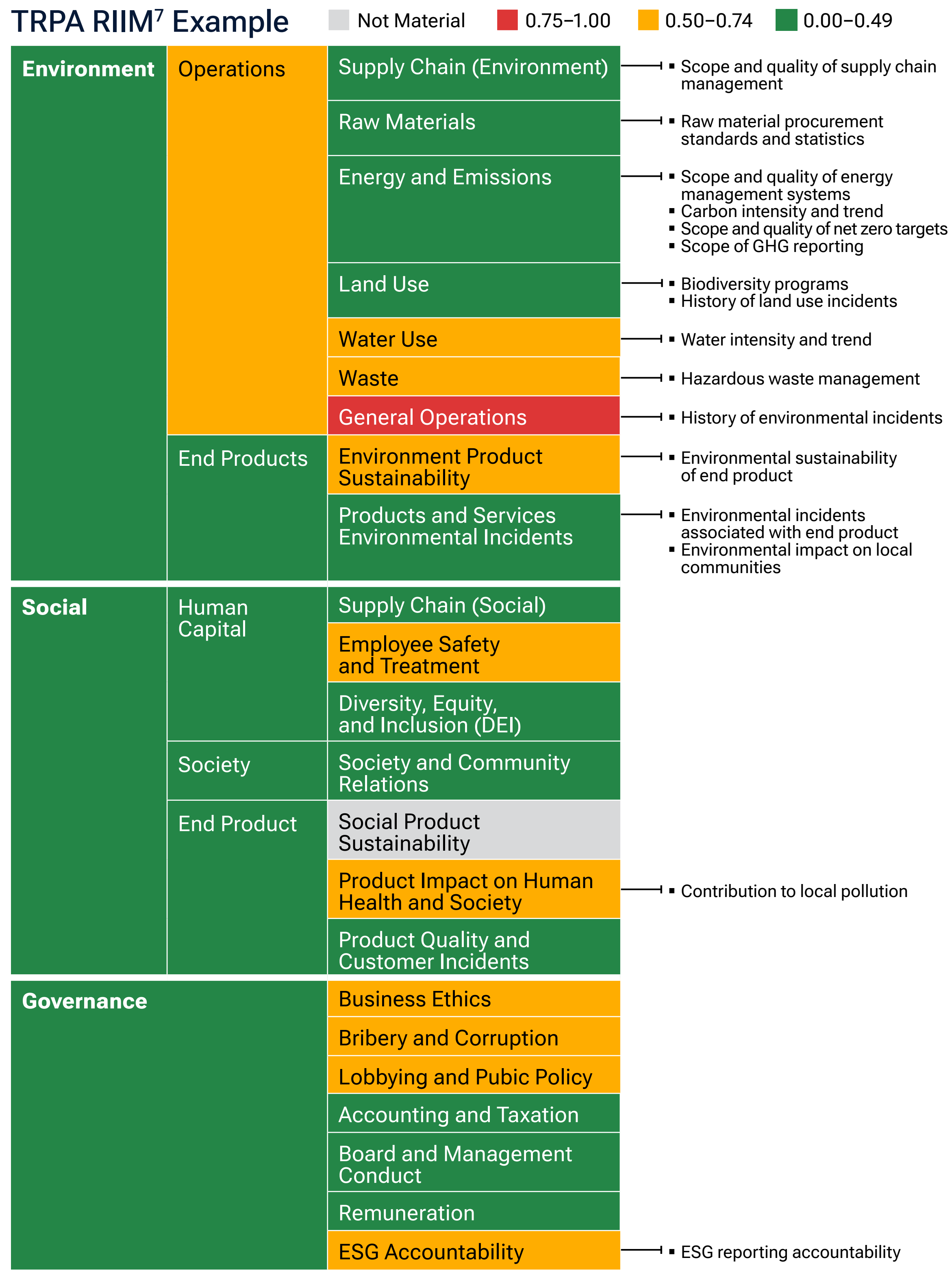
Our ESG policy and Investment Policy on Climate Change provide additional details.

* RIIM asset class considerations vary between TRPA and TRPIM. TRPIM RIIM covers only equity and corporate bonds.
[6] Excludes Oak Hill Advisors, L.P. (OHA), an alternative credit manager that T. Rowe Price Group, Inc. acquired on December 29, 2021.

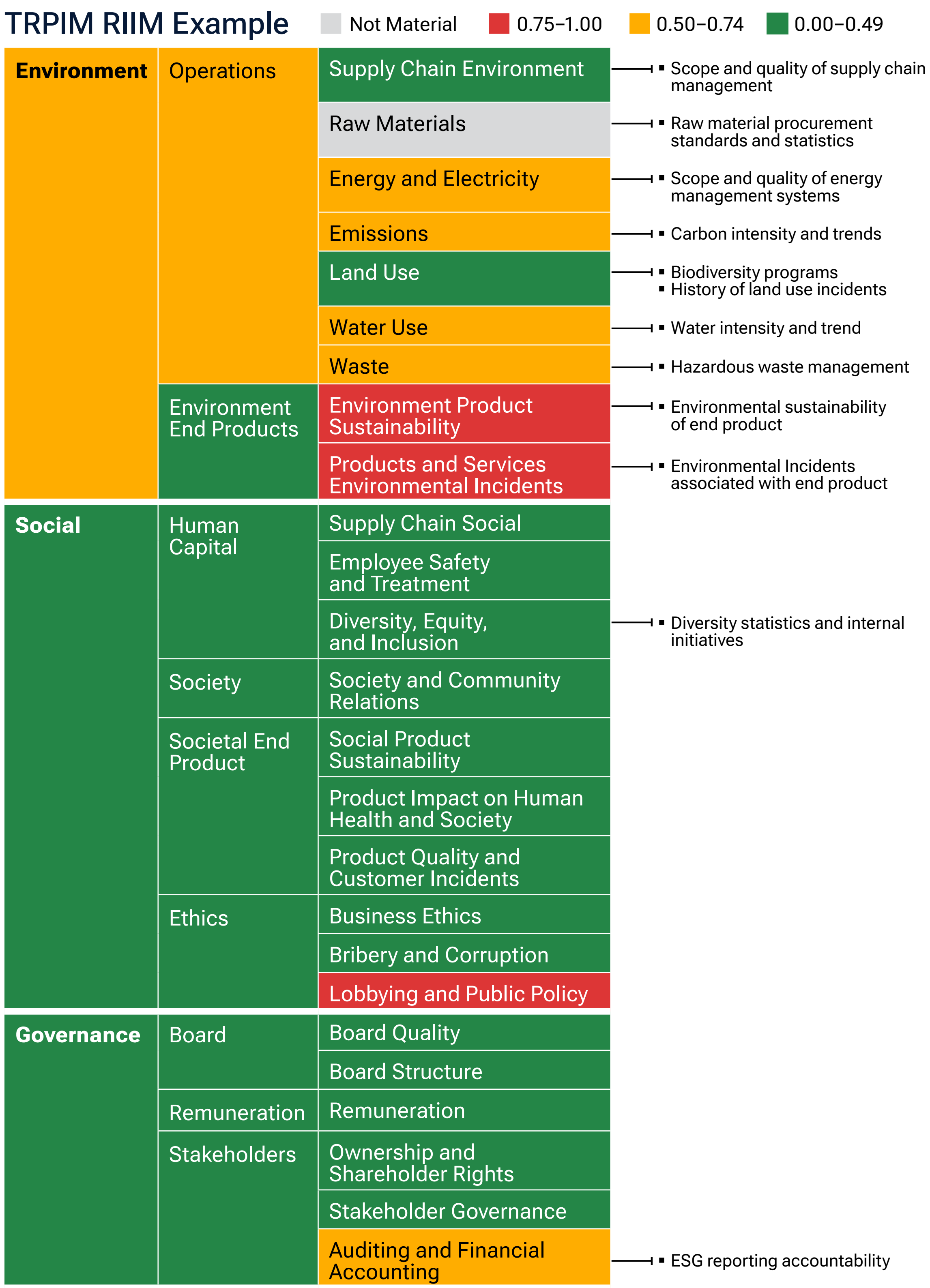
## Consideration in Investment Products and Strategies

We believe that environmental and social factors, including climate change, can impact financial performance of our investee companies and other issuers, and we therefore integrate analysis of these factors into our research process for the purpose of maximizing long-term risk-adjusted returns. We consider material climate risks and opportunities as part of security selection, portfolio review, and discussions with companies as well as sovereign, securitized, and municipal bond issuers.

Our evaluation of climate-related factors focuses on energy transition and physical risk, but we also believe that an issuer's environmental footprint and track record are important indicators that can help us understand how they may perform in a tightening regulatory environment. As such, our RIIM frameworks include a range of inputs; a few examples are highlighted in the illustration of TRPA's corporate RIIM framework. Green scores of <0.5 reflect positive ESG characteristics or low ESG risks. Orange scores of between 0.5 and 0.75 reflect elevated levels of ESG risks. Red scores between 0.75 and 1 reflect high ESG risks.




[7] The implementation and oversight of RIIM for TRPA and TRPIM differ.




Within both the TRPA and TRPIM RIIM analysis, consideration of environmental factors is driven by materiality, and the weight applied to each factor will vary based on industry or asset class.

When it comes to considering climate-related risks and opportunities at a broader level (e.g., portfolio or investment universe level), we generally center on our core evaluation metrics listed below, as well as engagement.

**Core Evaluation Metrics:**

- RIIM environment scores
- Net zero status
- GHG footprint
- Climate solutions alignment[8]

How each of the evaluation metrics is considered within a portfolio context will vary based on data availability and the investment strategy. For example, a portfolio with very limited data availability may not find the GHG footprint to be a decision-useful metric. Instead, that strategy may place a greater focus on RIIM environment scores and climate solutions alignment (both of which can be generated through T. Rowe Price's own fundamental research and, as such, do not have to be dependent on third-party data providers) as well as stewardship. In other cases, data availability may be good, but the portfolio's investment strategy may be more aligned with specific indicators, and that will determine which of the evaluation metrics are weighted most heavily by the portfolio manager.

Management of climate-related risks for a particular investment product is dependent upon the mandate given by the client. In the case where a client has set a sole mandate to deliver financial performance, climate-related risk mitigation is limited to evaluating environmental factors as part of our investment process for the purpose of maximizing financial performance.

A small but growing number of clients have elected to apply various net zero or GHG reduction targets to their investment portfolios. These clients have directed a dual mandate to deliver on climate-related outcomes as well as financial performance.

[8] TRPA only.

## Proxy Voting

Proxy voting is an investment function within T. Rowe Price and is subject to the oversight of the Boards of Directors of the various T. Rowe Price investment advisers, in line with their fiduciary duties. Our view is that proxy voting is a key element of our stewardship responsibilities. When casting votes on behalf of clients, our goal is to foster long-term success for the company and its investors.

The TRPA and TRPIM ESG Investing Committees develop our positions on all major proxy voting issues, create guidelines, and oversee the voting process for our respective investment advisers (excluding OHA). In establishing our proxy policies each year, the committees rely on our own fundamental research, independent research provided by an outside proxy adviser, and information presented by company managements and shareholder advocates. When deciding how to vote on a particular proxy, our governance specialists and industry analysts review the guidelines, with input from the Responsible Investing team if applicable, prior to sending their recommendation to the portfolio manager. Should a portfolio manager wish to cast a vote that is counter to the guidelines, they are required to document their reasons in writing to the committee.

The TRPA and TRPIM ESG Investing Committees are made up of experienced investment professionals, from our Equity, Fixed Income, and Multi-Asset Divisions as applicable, as well as senior members of equity management. The committees each meet twice a year. For the TRPA ESG Investing Committee, the first meeting, held in the first quarter, focuses on proxy voting activity from the year before, reassesses the suitability of TRPA's voting guidelines, and considers amendments to the guidelines. The second TRPA meeting, which is typically held midyear, focuses on environmental and social issues. TRPIM's first ESG Investing Committee meeting of the year reevaluates the proxy voting guidelines, considers changes to the guidelines, and reviews ESG policy updates. TRPIM's second ESG Investing Committee meeting of the year provides a review of TRPIM's proxy voting activity for that year's proxy season.

A separate set of proxy voting guidelines is administered for the TRPA impact strategies. These portfolios require a separate voting policy because they have two express mandates: competitive financial returns as well as positive social and environmental impact. A separate set of proxy voting guidelines is also administered for the TRPA strategies that are subject to an explicit net zero investment framework. These portfolios require a separate voting policy because they have two explicit mandates: competitive financial returns as well as alignment with net zero goals. In order to meet these objectives, portfolios under impact and net zero mandates may vote differently from other T. Rowe Price funds, particularly on director elections and shareholder proposals.

We offer extensive public disclosure around proxy voting. Under U.S. securities regulation, the voting policies, procedures, and decisions of T. Rowe Price's U.S.-regulated mutual fund portfolios are required to be disclosed on an annual basis. Vote disclosures for the first and second half of each year were posted eight weeks after each period-end.

In addition, we publish a report for our clients, highlighting important corporate governance trends from the prior 12 months and aggregating our proxy voting decisions into categories. We also provide our institutional clients with a customized record of their portfolios' voting activities upon request.

Within our content, we provided not only voting decisions, but rationales for key votes. These included votes against management; votes on shareholder proposals; and any other votes deemed controversial, informative, or significant.

Our proxy voting program is one element of our overall relationship with corporate issuers. Other contexts in which we might use our voice include:

- Regular, ongoing investment diligence
- Engagement with management on ESG issues
- Meetings with senior management, offering our candid feedback
- Meetings with members of the Board of Directors
- Decisions to increase or decrease the weight of an investment in a portfolio
- Decisions to initiate or eliminate an investment
- On rare occasions, issuing a public statement about a company—either to support the management team or to encourage it to change course in the long-term best interests of the company

However, in an environment where large institutional shareholders are often rated by third parties according to how frequently they vote against Board recommendations, we wish to be clear: It is not our objective to use our vote to create conflict with the companies in which our clients are invested. Instead, our objective is to use our voice—through the various avenues listed above—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 action per year when a company convenes its annual meeting.

Where a company is not making sufficient progress in line with our expectations, the investment analyst will have a perspective on a company's situation. Materiality is assessed on a case-by-case basis alongside other investment considerations. The ultimate decision on how to escalate—whether that be to vote against the directors if the company is held in an equity strategy or to divest—sits with the portfolio managers. Overweighting/underweighting is another tool at our disposal. When an ESG risk or benefit is identified, it may cause the portfolio manager to adjust his or her weighting of the holding.

Our investment-driven engagement program frequently identifies targets through our proprietary RIIM analyses, governance screening, and analysts' fundamental research. ESG engagement meetings are carried out by our ESG specialists as well as by our portfolio managers and analysts from our equity and fixed income teams.

While we engage with companies in a variety of investment contexts, ESG engagement focuses on learning about, guiding, or exchanging perspectives on the environmental practices, corporate governance, or social issues affecting their businesses.

Throughout the course of 2023, TRPA engaged with issuers on 866 separate occasions on ESG topics. TRPIM undertook 214 ESG engagements. We classify these meetings as ESG engagements, as they contained a notable discussion of ESG issues.

We have begun systematically tracking ESG-related expectations, or targets, set with issuers in which we engage; the new process also supports the timely review of next steps we identified within ongoing engagements. These targets are then categorized into those seeking enhanced disclosure and those seeking a change in an issuer's practices. As of December 31, 2023, TRPA has tracked over 1,500 targets relating to engagements since late 2021.

Each target is tracked against a status, capturing whether it is in progress, achieved, closed but not met (failed or inactive), or escalated because the target is still in progress but has not been met in a timely fashion. Many of our targets have a multiyear time horizon of up to three years, particularly where we are requesting changes to practice. The chart below depicts the breakdown of targets by status as at the end of 2023.

Additional details on our approach to proxy voting, including regional considerations, are published in the TRPA Proxy Voting Guidelines and the TRPIM Proxy Voting Guidelines.

### TRPA: Status by Target Type

2022 and 2023 data

| Target Type | Disclosure | Practice |
|---|---|---|
| **Inactive** | 10 | 19 |
| **Failed** | 15 | 11 |
| **Escalated** | 10 | 16 |
| **Achieved** | 144 | 111 |
| **In Progress** | 70 | 65 |
| **Identified/Initiated** | 558 | 441 |
| **Total Number of Targets** | 807 | 663 |

## Engagement on Climate Risks

We believe climate-related risks can be financially material, especially in high-emitting industries, and, therefore, ongoing engagement with investee companies and other issuers on this topic is one way to help mitigate risk. For equity investments, engagement can be supplemented with a proxy voting program that takes climate risk into account.

Engagement on climate change with management teams or boards of investee companies is usually conducted as part of a multifaceted discussion on many investment considerations for that particular company but occasionally could focus only on climate change implications. Given that T. Rowe Price has predominantly actively managed portfolios, portfolio managers may elect to screen out specific companies with onerous climate-related risk if they believe it will negatively impact the investment case. As a result, the profile of investee companies across portfolios may look meaningfully different from peers—particularly passive peers. That is why engagements on specific ESG issues such as climate change tend to be in-depth discussions, where T. Rowe Price believes engagement can be effective.

One of the more difficult aspects of evaluating climate change risks and opportunities in corporate securities is the lack of disclosure on key environmental metrics, strategy, and accountability. T. Rowe Price expects companies to adopt industry best practice disclosure standards. To this end, we advocate 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 the newly established International Sustainability Standards Board (ISSB) comes into effect, we will recommend this disclosure as best practice.

Additionally, for smaller issuers of private credit and syndicated loan transactions that may find SASB and TCFD difficult to achieve in the near term, we advocate using the ESG Integrated Disclosure Project (ESG IDP) reporting template.

We strongly encourage all issuers to report their Scope 1–3 GHG emissions. However, we recognize that reporting Scope 3 emissions adds much more complication than reporting Scope 1 and 2 emissions and that, for some industries, estimating methodologies are still evolving. Given these issues, we do not think it is appropriate for us to unilaterally expect all issuers to report a full suite of Scope 3 emissions; however, we do expect that the landscape and our expectations will evolve over the next 12 to 24 months. In the interim, we strongly encourage issuers to report the Scope 3 emissions categories most material to their business. For high-emitting companies, our minimum expectation is that they disclose absolute Scope 1 and 2 GHG emissions on an annual basis. Failure by companies in these industries to disclose these data leaves investors unable to properly analyze their exposure to climate change risk. For this transparency gap, we will generally oppose the reelections of all non-executive incumbent directors at the next shareholder meeting.

Where a company has elected to publish a climate transition plan, we consider it against our framework for assessment of climate-related action. Engagement is only part of the stewardship toolbox. 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.

Additional information on our approach is available in our Engagement Policy.

# Climate Scenario Analysis

Climate value at risk (VaR) is used by institutional investors to identify and assess the climate-related risks associated with global climate change across a range of different scenarios. These scenarios are not intended to be forecasts but are used to evaluate the financial impact on investment returns caused by transition and physical risks over a 15-year period. A limitation of this metric is that it does not take into account changes in investment holdings over time or updates to climate targets of investee companies.

At T. Rowe Price, we conduct climate scenario analysis using a range of scenarios. These scenarios are designed and developed by the Network for Greening the Financial System (NGFS) and include 1.5°C, 2°C (Orderly and Disorderly), as well as Nationally Determined Contributions (NDC). They are not intended to be forecasts but instead are used to explore a range of plausible outcomes over the next several decades. We assess our aggregated investment portfolios' climate-related risks and opportunities using climate VaR, a forward-looking, return-based assessment of financial impact over a 15-year horizon. Climate VaR measures the present value of future company profitability, taking into account potential climate-related costs and revenues.

## Climate Risk Exposure by Sector

| Sector[1,2] | % of AUM Covered[3] | 1.5°C Disorderly | 1.5°C Orderly | 2°C Disorderly | 2°C Orderly | 3°C NDC |
|---|---|---|---|---|---|---|
| **Communication Services** | 6.4% | -0.3% | -0.2% | -0.2% | -0.2% | -0.3% |
| **Consumer Discretionary** | 8.8% | -1.0% | -0.7% | -0.6% | -0.4% | -0.4% |
| **Consumer Staples** | 3.4% | -0.6% | -0.4% | -0.4% | -0.2% | -0.3% |
| **Energy** | 3.6% | -2.8% | -2.4% | -2.0% | -0.9% | -0.9% |
| **Financials** | 12.4% | -0.9% | -0.7% | -0.7% | -0.6% | -0.9% |
| **Health Care** | 12.6% | -0.6% | -0.4% | -0.4% | -0.3% | -0.4% |
| **Industrials** | 8.2% | -1.1% | -0.8% | -0.7% | -0.4% | -0.5% |
| **Information Technology** | 20.4% | -0.4% | -0.3% | -0.3% | -0.2% | -0.3% |
| **Materials** | 3.1% | -1.0% | -0.9% | -0.8% | -0.5% | -0.5% |
| **Real Estate** | 2.1% | -0.2% | -0.2% | -0.2% | -0.1% | -0.2% |
| **Utilities** | 1.8% | -1.5% | -1.1% | -1.1% | -0.5% | -0.7% |

## Overall Climate Risk Exposure

| Sector[3] | % of AUM Covered | 1.5°C Disorderly | 1.5°C Orderly | 2°C Disorderly | 2°C Orderly | 3°C NDC |
|---|---|---|---|---|---|---|
| **Total climate VaR** | 82.9% | -10.6% | -8.1% | -7.4% | -4.5% | -5.3% |

The three main pillars of climate VaR are Policy, Technology, and Physical risks. For instance, Policy risk refers to the regulatory costs of achieving net zero climate targets such as higher carbon taxes. Technology opportunity refers to potential future revenues associated with the transition to a low-carbon technology such as renewable energy. Physical risks refer to the direct and indirect costs of climate-related risk, such as damage to assets and supply chain disruptions, respectively.

[1] This information excludes Oak Hill Advisors, L.P. (OHA), an alternative credit manager that T. Rowe Price Group, Inc., acquired on December 29, 2021. Data as of December 31, 2023. All data are provided in terms of the contribution of each sector based on the aggregated assets covered. Please see page 54 for further definition. The climate scenarios are designed and developed by Network for Greening the Financial System (NGFS). Climate value at risk is based on a weighted average market value approach and represents the estimated percent change in portfolio value under each scenario. Source: MSCI ESG Research LLC.
[2] Sectors categories are based on Global Industry Classification Standard (GICS).
[3] Total may differ due to rounding.

Physical risks also encompass acute risks such as extreme weather events and chronic risks that manifest slowly over time. Examples of acute risks include tropical cyclones, flooding, low river flow, and wildfire whereas chronic risks comprise extreme heat/cold, precipitation, snowfall, and wind. In total, we assess 10 different weather hazards at both the 50th and 95th percentiles of their cost distributions.

We model chronic risks using statistical extrapolation of historical data whereas for acute risks we use physical climate models that incorporate the latest climate science. In general, a lower temperature scenario (e.g., less than 2°C) is likely to represent greater transition risk while a higher temperature scenario (e.g., greater than 3°C) is likely to represent greater physical risk. Our assessment based on a possible 2°C climate scenario indicates that sectoral risks would become elevated across high-emitting sectors such as energy, materials, utilities, and industrials.

At T. Rowe Price, we assess climate-related risks and opportunities of our aggregated investment portfolios over short-, medium-, and long-term time horizons. These include transition risks such as changes in government policy and regulation as well as physical risks such as flooding and extreme heat/cold. Together, they form part of our enterprise risk management framework, which aims to identify and assess such risks over the investment horizon.

The materialization of climate-related risks could lead to lower asset valuations and increased market volatility, but the range of possible outcomes is highly uncertain and subject to change. Moreover, our assessment of climate-related risks is not exhaustive but aims to highlight the most significant risks, as well as their potential impact on the investments we manage on behalf of our clients.

## Climate-related risks and opportunities related to the investments we manage

S = Short term (less than 1 year) M = Medium term (2–5 years) L = Long term (5+ years)

| Description | Impact on Investee Companies | Risks and Opportunities for T. Rowe Price Investments[4] |
|---|---|---|
| **Transition Risks** | | |
| **Regulation** S M L<br>Changes in government policy to meet country-specific climate targets | Dedicated resources to monitor and review global ESG/climate regulatory proposals (pre-implementation stage) and determine impact to T. Rowe Price holdings. Project management and business resources are engaged to ensure final regulatory requirements are met and implemented in a timely manner | **Risks:** Greater investment performance variability due to changes in asset valuations; changes in asset allocation to avoid stranded assets and manage idiosyncratic risks<br>**Opportunities:** Strong evaluation of environmental factors will highlight companies for investment that have better potential to strive under new regulations generating above-average returns |
| **Technology** M L<br>Increase in intellectual property and product innovation | Reduced carbon emissions due to adoption of affordable low-carbon technology and renewable energy; higher revenue projections and profitability due to increased product demand and market share; increased capital expenditure and operational costs to incorporate new technologies into business operations | **Risks:** Greater investment performance variability due to adoption costs and opportunities of investee companies; changes in asset allocation to incorporate investment opportunities and manage idiosyncratic risks<br>**Opportunities:** Potential for improved investment performance of innovative investee companies |

[4] Other factors could have a material impact on performance.

| Description | Impact on Investee Companies | Risks and Opportunities for T. Rowe Price Investments[4] |
|---|---|---|
| **Transition Risks** | | |
| **Market** M L<br>Changes in market volatility and asset valuations | Lower profitability and higher costs due to idiosyncratic risks and negative market sentiment | **Risks:** Greater investment performance variability due to changes in asset valuations; changes in asset allocation to avoid stranded assets and manage idiosyncratic risks<br>**Opportunities:** Strong evaluation of environmental factors will identify sectors and individual companies effectively managing risks and potentially produce above-average performance |
| **Reputational** M L<br>Loss of confidence due to perceived greenwashing or lack of competitiveness | Lower revenue projections and profitability due to loss of confidence and trust; failure to attract and retain talent to maintain competitiveness | **Risks:** Greater investment performance variability due to changes in asset valuations; changes in asset allocation to manage idiosyncratic risks<br>**Opportunities:** Ability to effectively evaluate companies on environmental and social dimensions will allow us to gear investments toward companies that will maintain a strong reputation in the market |

| Description | Impact on Investee Companies | Risks and Opportunities for T. Rowe Price Investments[5] |
|---|---|---|
| **Physical Risks** | | |
| **Acute** S M L<br>Extreme short-term weather events | Lower revenue projections and profitability due to business disruption and increased costs | **Risks:** Greater investment performance variability due to changes in asset valuations; changes in asset allocation to manage idiosyncratic risks<br>**Opportunities:** Identifying acute risks and working with companies to understand mitigation strategies to help protect investments and potentially improve returns |
| **Chronic** S M L<br>Long-term shifts in weather patterns | Lower revenue projections and profitability due to changes in climate conditions that affect supply and demand | **Risks:** Greater investment performance variability due to changes in asset valuations; changes in asset allocation to manage idiosyncratic risks<br>**Opportunities:** Staying abreast of broad environmental changes and impact to businesses will highlight those companies quickly adapting through technology and strong management, which will create above-average investment opportunities |

[5] Other factors could have a material impact on performance.

# Products and Mandates

# Overview

Asset managers have significant exposure to climate risks and opportunities through the investments made on behalf of clients. We believe that these risks and opportunities can impact investment performance and client demand for investment product offerings. The process for identifying, assessing, and managing climate-related risks and opportunities is outlined in the Risk Management section of this report.

We expect that financial market performance will experience more volatility in the event of a delayed and/or disorderly transition, as the likelihood of physical climate risk will be greater and the regulatory impact may be more severe. While climate change risks and opportunities are present across all geographies and sectors, they will likely be more pronounced for issuers in regions taking limited action to address climate risk from a regulatory standpoint, those more likely to experience greater physical impacts, and in high-emitting sectors.

While investments make up the majority of total greenhouse gas emissions for asset managers, most of these investments are managed for clients with a mandate to deliver financial performance. As a result, we have not set a binding net zero target for our investments (Scope 3, category 15) that would supersede the firm's fiduciary duty to deliver financial returns and manage risk, unless specified by the client or investment product. Instead, the firm's strategy has been to manage climate-related risks and opportunities by:

1. Considering climate and other environmental factors within investment analysis (for the purpose of maximizing risk-adjusted returns) and
2. Offering select investment products that have environmental mandates.

The first helps mitigate climate-related risks on investment strategy financial performance, while the second helps mitigate the risk of changing client preferences. In the short and medium terms, we believe that risks and opportunities that could stem from the impact of climate change on client preferences are most material in Europe, Japan, and Australia.

From an opportunity perspective, our Responsible Investing professionals work alongside analysts and portfolio managers to help identify and research environmental trends that increase the market opportunities for the companies in which we invest.

Some clients' investment goals are not purely financial, and we are committed to working with them to meet their needs. We offer select investment products and mandates with ESG characteristics through use of exclusions, alignment to sustainable investments, and positive tilts to RIIM scores or targeting specific ESG objectives alongside financial return, such as the transition to net zero or positive environmental or societal impact.

As of December 31, 2023, USD 70 billion assets (5% of total assets under management) were deemed to be in accounts with a mandate that includes ESG criteria, defined by portfolios that apply screening or are sustainability themed. The entire USD 70 billion used more than one ESG strategy (e.g., screening and ESG integration). Our criteria for screening are that the account needs to apply exclusion lists based on involvement in activities that could be harmful to the environment or society (e.g., tobacco, gambling), or positive ESG screening criteria (e.g., sustainable investment alignment targets or positive tilts to RIIM scores), while sustainability-themed portfolios include impact products. Many of these assets are in separate accounts, which allow our clients to choose specific screening criteria that align with their values and/or sustainability-related objectives.

| | Financial Only | ESG Enhanced | Net Zero | Impact |
|---|---|---|---|---|
| **Objective** | **Seeks to deliver competitive financial returns** | **Seeks to promote specific ESG characteristics alongside financial returns** | **Seeks to deliver financial returns while promoting the transition to net zero** | **Seeks positive societal and/or environmental impact alongside financial returns** |
| **Approach** | Analyzes ESG factors for the purpose of maximizing investment performance | Incorporates binding social and/or environmental commitments that vary by product type, such as:<br>▪ Customized exclusions<br>▪ Greenhouse gas (GHG) reduction targets<br>▪ Alignment to sustainable investments<br>▪ Customized benchmarks<br>▪ Positive ESG tilt | Customized mandate seeks to align with 1.5°C scenario by incorporating commitments, such as:<br>▪ Portfolio net zero status<br>▪ Net zero stewardship<br>▪ GHG emissions reduction<br>▪ Climate solutions alignment<br>▪ Climate-related Principle Adverse Impacts (PAIs)<br>▪ Customizable options | 100% positive impact holdings that meet T. Rowe Price's impact criteria, including impact thesis, theory of change, and measurable key performance indicators.<br><br>Multi-asset impact strategies can help clients meet additional objectives, such as risk/return profile optimization. |

# Net Zero Solutions

In 2023, we started offering practical solutions for asset owners interested in aligning their investments to net zero by 2050. These typically incorporate one or a combination of the following four commitments:

1. Net zero stewardship
2. T. Rowe Price Net Zero Transition Framework
3. GHG emissions reduction
4. Climate solutions alignment[1]

Because these commitments constrain the investment universe to varying degrees, they need to be considered carefully alongside the financial objectives of a client's specific mandate.

Mandates electing a **net zero stewardship** approach uses engagement and voting to encourage investee companies to follow best practices with regards to net zero disclosure and climate strategy. These mandates apply the T. Rowe Price net zero proxy voting guidelines created in 2023.

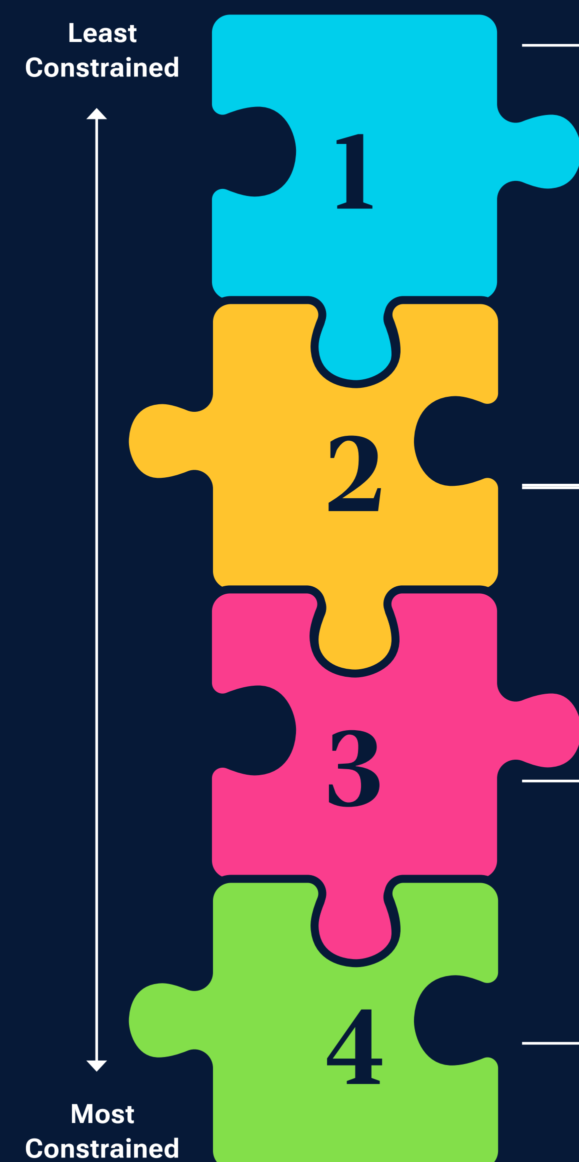
Mandates electing a **Net Zero Transition Framework** approach apply portfolio-level targets for the distribution of net zero status among the underlying holdings, in addition to utilizing net zero stewardship. This framework seeks to gradually increase net zero alignment at the portfolio level by setting binding net zero alignment targets for 2030, 2040, and 2050. In keeping with our efforts to promote best practices, the framework is anchored to an existing industry standard, the Paris Aligned Investment Initiative Net Zero Investment Framework (PAII NZIF) and leverages our active management capabilities.

Setting portfolio-level targets on **greenhouse gas (GHG) reduction** is another approach that can be implemented. While this is a backward-looking approach, some asset owners find it helpful to allow them to meet their own financed emissions targets.

[1] TRPA only.



## Aligning net zero goals with portfolio-level targets




### Net Zero Stewardship

Portfolio utilizes stewardship to pursue net zero objective. Internal target is for 70% of the portfolio's financed emissions to be either aligned to a net zero pathway or the subject of engagement.* For equity portfolios, a net zero voting policy is applied.

### Net Zero Transition Framework

Portfolio sets net zero status targets that align with a 1.5°C scenario and net zero stewardship policy.

### GHG Reduction Target

Portfolio sets a greenhouse gas reduction target that aligns with a 1.5°C scenario and seeks year over year reductions.

### Climate Solutions Target

Portfolio sets a target for portfolio alignment to climate solutions.

* Target is to engage with holdings that have not reached "Achieving" or "Aligned" net zero status covering at least 70% of financed emissions. Engagement target will rise to 90% by 2030. Please note that this is an internal aim and not an objective. It is not possible to guarantee the portfolio will maintain the 70% at all times due to the variability of portfolio composition driven by active investment decisions. See Glossary of Terms for further information and definitions of "Achieving" and "Aligned."

Setting targets on capital allocated to **climate solutions** is another approach that can be implemented in isolation or in combination with the other three. At T. Rowe Price, this corresponds to the Reducing Greenhouse Gas sub-pillar of our impact strategies and includes activities such as:

- Increasing energy efficiency
- Decarbonization, carbon capture, and sequestration
- Reducing methane and other GHGs
- Financing sustainable activities

For clients with access to SICAV offerings, we launched the T. Rowe Price Global Growth Equity Net Zero Transition Fund in 2023, which uses the Net Zero Transition Framework.

## Identifying Opportunities for New Product Offering

We are always looking to evolve and expand our product offerings to help clients navigate varying markets and meet their investment needs.

The ESG Enablement team is responsible for our ESG-related product strategy and execution. Their analysis includes market analysis, competitive positioning, and investment capability. The Product Strategy Committee is responsible for approving new product ideas and consists of members of senior management, most of whom are members of the firm's Management Committee.

We manage the product life cycle from idea capture and initial assessment through a build, launch, and go-to-market process, followed by post-launch evaluation.

Above all, we feel it is our responsibility to manage product development in a disciplined and strategic manner. Our goal is to maintain the integrity of our existing investment strategies and existing shareholders' returns while also responding to the demands of a complex and ever-changing investment environment.

# Measuring the Climate Impacts of Our Investments

Carbon emissions datasets are made up of a combination of reported and estimated data, due to a variance in disclosure levels by companies. Because of this, there can be variations between vendors, who take different approaches depending on the industry and the information available. The goal of any estimate is a figure in the right order of magnitude, since total accuracy can only be achieved if a company is actually reporting carbon data. We rely on our vendor to supply both the data and analysis. We do not guarantee its accuracy. The limited and unstandardized nature of Scope 3 emissions disclosure requires the use of datasets consisting entirely of estimated GHG emissions. For this reason, we see limitations in data quality and advocate caution when using these data. We expect data quality to improve over time. In line with TCFD recommendations, we use the following metrics to monitor and report our Scope 3.15 (Investments) emissions.

## Methodology

| | |
|---|---|
| Asset classes included | Listed equities, corporate bonds, sovereign bonds,[1] securitized bonds,[2] municipal bonds,[2] and bank loans[2] |
| Asset classes excluded | REITs, derivatives, and commodities |
| Percentage of T. Rowe Price Associates and its investment advisory affiliates AUM included | 80%–90%, depending on the metric |
| Standards | Partnership for Carbon Accounting Financials (PCAF) |
| Date | Holdings as of December 31, 2023 |
| Data source | MSCI ESG Research LLC |

## Financed Emissions

We have adopted the equity ownership approach when attributing carbon emissions to our investment portfolios. This methodology allocates emissions to an investor based on levels of capital invested in a company and is aligned with the PCAF standards. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased electricity, steam, or cooling. Scope 3 emissions are all other indirect emissions, attributable to the supply chain over a product's life cycle. These consist of upstream emissions (up to point of sale) and downstream emissions (post-point of sale).

Our Scope 1 and 2 financed carbon emissions as of year-end 2023 include both reported and estimated data with approximately 56% coming from 2022 and 30% coming from 2021 issuer emissions. Enhancements to the existing data collection process are expected to improve the timeliness of data availability from 2025 onward. Additionally, 83% of the MSCI ACWI universe and 63% of the MSCI ACWI IMI universe have Scope 1 and 2 carbon emissions data available for 2022. This includes 95% of Top 20 emitters and 85% of Climate Action 100+ companies (that are within the MSCI Climate universe).

The PCAF standard suggests using a data-quality score, since the calculation of financed emissions relies on frequently unaudited and estimated emissions data from investees. This scale ranges from 1 (highest-quality, verified data) to 5 (low-quality, estimation based on asset turnover). The aggregate quality score for T. Rowe Price Associates and its investment advisory affiliates' Scope 1 and 2 financed emissions is 2.23 and Scope 3 is 2.74.

[1] Sovereign bonds are only used in financed emissions and weighted average carbon intensity.
[2] Based on estimates only and accounts for approximately 4% of T. Rowe Price Associates and its investment advisory affiliates AUM.

## Listed and Private Company Total Financed Greenhouse Gas Emissions

$$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{issuer's EVIC or total equity + debt}_i} \times \textit{issuer's Scope 1, 2, 3 GHG emissions}_i\right)$$

## Sovereign Financed Greenhouse Gas Emissions

$$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{PPP - GDP}_i} \times \textit{sovereign issuer's GHG emissions}_i\right)$$

## Weighted Average Carbon Intensity (WACI)

WACI measures a portfolio's exposure to carbon-intensive companies. We use a weighted average approach expressed in tons $CO_2e$/USD million revenue to normalize carbon emissions by company sales and attribute them to our investment portfolios. This metric does not rely on equity ownership in a company, and it can be applied to both equity and credit portfolios.

### Corporate Issuers

$$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{current portfolio value}} \times \frac{\textit{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\textit{issuer's \$M revenue}_i}\right)$$

### Sovereign Issuers

$$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{current portfolio value}} \times \frac{\textit{sovereign issuer's GHG emissions}_i}{\textit{sovereign issuer's \$M GDP}_i}\right)$$

## Carbon Footprint

Carbon footprint measures the amount of carbon emissions that are attributable to an investor per USD million invested (expressed in $tCO_2e$/$M invested). This metric is useful for comparing portfolios and benchmarks.

For carbon footprint, our asset class coverage primarily consists of equity and corporate bond holdings. Assets not covered include derivatives, securitized credit, and sovereign bonds, where there is insufficient data quality or a lack of methodology. Data reliability remains a key challenge for industry participants, due to a lack of harmonized company disclosure standards and reporting across jurisdictions.

Where data are lacking, carbon emissions for individual companies are either estimated by our third-party data provider or excluded. In general, data quality scores of 1–2 indicate reported emissions, whereas scores of 3–5 indicate estimated emissions. Scope 3 emissions are mostly estimated due to poor quality data.

### Corporate Issuers Carbon Footprint

$$\frac{\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{issuer's EVIC}_i} \times \textit{issuer's Scope 1 and Scope 2 GHG emissions}_i\right)}{\textit{current portfolio value (\$M)}}$$

## Implied Temperature Rise

The implied temperature rise (ITR) metric provides an indication of how aligned a company or investment portfolio is with global climate targets, such as the Paris Climate Agreement. It provides an indication of how much we can expect global temperatures to increase (expressed in degrees Celsius) over the next several decades based on how much of the global carbon budget is used, assuming the whole economy utilizes the same proportion of carbon budget as an individual company or portfolio.

**2023 Metrics[3]**

| Measurement | Unit | Scope | Metrics |
|---|---|---|---|
| Financed emissions | Tons $CO_2e$ | Scope 1 and 2 | 77,147,174 |
| | | Scope 3 | 365,198,867 |
| Carbon footprint | Tons $CO_2e$/$Million Invested | Scope 1 and 2 | 42.9 |
| | | Scope 3 | 277.23 |
| Weighted average carbon intensity (WACI) | Tons $CO_2e$/$Million Revenue | Scope 1 and 2 | 119.3 |
| | | Scope 3 | 653.73 |
| Implied temperature rise | Celsius | Scope 1 and 2 | 2.4 |

[3] This information excludes Oak Hill Advisors, L.P. (OHA), an alternative credit manager that T. Rowe Price Group, Inc., acquired on December 29, 2021.

## Climate Metrics by Sector[4]

| Sector[5] | Financed Carbon Emissions Scope 1+2 $tCO_2e$ | Financed Carbon Emissions Scope 3 $tCO_2e$ | Weighted Data Quality Score Scope 1+2 | Weighted Data Quality Score Scope 3 |
|---|---|---|---|---|
| Communication Services | 416,691 | 2,338,616 | 2 | 3 |
| Consumer Discretionary | 1,758,040 | 28,345,796 | 2 | 3 |
| Consumer Staples | 1,360,987 | 20,066,041 | 2 | 3 |
| Energy | 9,023,468 | 99,129,712 | 2 | 3 |
| Financials | 32,191,747 | 10,207,258 | 3 | 3 |
| Health Care | 619,772 | 9,516,964 | 2 | 3 |
| Industrials | 3,731,592 | 136,011,695 | 3 | 3 |
| Information Technology | 1,187,263 | 8,194,530 | 2 | 2 |
| Materials | 11,453,673 | 32,044,260 | 2 | 3 |
| Real Estate | 192,271 | 2,375,347 | 2 | 3 |
| Utilities | 14,688,175 | 14,693,331 | 2 | 3 |

| Sector | WACI Scope 1+2 ($tCO_2e$/$M Revenue) | WACI Scope 3 ($tCO_2e$/$M Revenue) |
|---|---|---|
| Communication Services | 0.93 | 11.05 |
| Consumer Discretionary | 6.64 | 60.01 |
| Consumer Staples | 2.10 | 21.75 |
| Energy | 15.61 | 154.20 |
| Financials | 4.45 | 67.75 |
| Health Care | 2.43 | 48.33 |
| Industrials | 10.19 | 112.42 |
| Information Technology | 5.56 | 84.96 |
| Materials | 20.76 | 65.74 |
| Real Estate | 1.52 | 8.77 |
| Utilities | 49.13 | 18.74 |

Sovereign WACI is approximately 323 (expressed in $tCO_2e$/USD M GDP nominal). The coverage ratio is approximately 7%.

| Sector | Carbon Footprint Scope 1+2 ($tCO_2e$/$M Invested) | Carbon Footprint Scope 3 ($tCO_2e$/$M Invested) |
|---|---|---|
| Communication Services | 0.31 | 3.44 |
| Consumer Discretionary | 1.51 | 26.07 |
| Consumer Staples | 1.11 | 11.67 |
| Energy | 7.55 | 90.68 |
| Financials | 1.47 | 12.14 |
| Health Care | 0.53 | 14.14 |
| Industrials | 3.35 | 58.91 |
| Information Technology | 1.32 | 16.22 |
| Materials | 10.99 | 36.02 |
| Real Estate | 0.19 | 1.92 |
| Utilities | 14.56 | 6.03 |

[4] This information excludes Oak Hill Advisors, L.P. (OHA), an alternative credit manager that T. Rowe Price Group, Inc., acquired on December 29, 2021. Asset coverage based on 80% of T. Rowe Price Associates AUM. All data are provided in terms of the contribution of each sector to the aggregated assets covered. Sectors categories are based on Global Industry Classification Standard (GICS).
[5] Financed emissions aligned with PCAF Global GHG Accounting and Reporting standards, carbonaccountingfinancials.com/standard

## Net Zero Asset Managers Initiative

T. Rowe Price joined the Net Zero Asset Managers initiative (NZAM) in 2022 and made its initial disclosure under the initiative in 2023. One of our key rationales for joining NZAM was to help support the establishment of robust and standardized methodologies for evaluating investment pathways to net zero. NZAM objectives also align with our belief that a smooth climate transition should create a more stable economic environment, reduce uncertainty, and enable business investment. This should result in better long-term financial outcomes for the companies and other securities in which we invest on behalf of our clients.

Importantly, our membership rested on NZAM's pragmatism and acknowledgment that asset managers like T. Rowe Price are fiduciaries, whose success in reaching net zero largely depends on governments following through on their respective commitments to achieve the goals of the Paris Climate Agreement.

Finally, the commitments made under NZAM align with T. Rowe Price's existing business practices and our approach to sustainability. Consideration of climate transition is fully integrated into our fundamental research and portfolio construction processes and has formed part of our proprietary ESG analysis for several years. Furthermore, we engage constructively with companies to encourage a thoughtful approach to decarbonization and advocate for greater transparency of climate-related information and data. |

In April 2024, we committed 61% of our total AUM as of December 31, 2023, to net zero.[6] To determine this commitment, we adopted a methodology rooted in process, alignment with investment styles, data quality, and measurements. The strategies not committed fall into four categories:

- Strategies invested in corporate securities that lack adequate GHG emissions data (min. 75%) to make an informed net zero assessment,
- Strategies that predominantly invest in emerging markets or specific sectors lacking realistic pathways to achieve net zero by 2050,
- Strategies that predominantly invest in asset classes lacking a net zero methodology (sovereign, securitized, and municipal bonds), and
- Strategies with short-term investment styles (cash funds and short, ultrashort, and low duration strategies) or strategies that do not have net zero as a consideration within their investment process (quantitative and index funds).

At the same time, we set interim targets in 2030 and 2040 for the portion of committed assets under management to be managed in line with the attainment of net zero emissions by 2050 or sooner. We elected to use what NZAM defines as the Portfolio Coverage Target because this is a forward-looking indicator that does not force divestment and emphasizes the credibility of issuers' short-, medium-, and long-term climate transition plans. With this approach, we target to gradually increase the percentage of committed AUM that is at least aligned with net zero.

Consistent with our portfolio coverage approach, we assess each issuer's respective net zero targets, their credibility, and the progress made toward achieving them. We check that the chosen pathways align with limiting warming to 1.5˚C.

Aggregating the net zero alignment or the status of individual issuers using the percentage weight of each holding provides a net zero portfolio coverage view. Measuring the percentage of a portfolio's value classified as Achieving and Aligned to net zero helps us to track its transition to net zero.

[6] AUM commitment figures are unaudited and may be subject to change. Commitments are nonbinding.

## Fund Carbon Footprint Reporting

On a quarterly basis, we assess and report to our clients on the carbon profile of our equity and credit funds (for portfolios where we have more than 75% data coverage, either reported or estimated). The report includes data on:

- Total emissions (total emissions owned),
- Carbon footprint (total emissions expressed as USD 1 million invested), and
- Weighted average carbon intensity (the weighted average, by portfolio weight, of the total carbon emissions per USD 1 million of revenues for each of the portfolio's holdings).

Since 2022, we provide a Scope 1 and 2 emissions view, as well as one including Scope 3 emissions. The limited and unstandardized nature of Scope 3 emissions disclosure requires the use of datasets consisting entirely of estimated GHG emissions. For this reason, we advocate caution when using these data.

## Net Zero Alignment Classification System

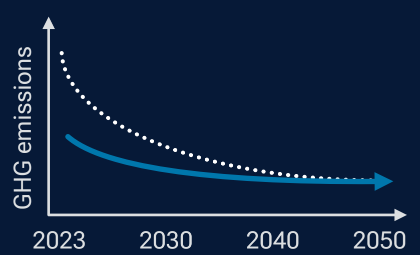
Our net zero alignment or "status" framework helps determine the extent to which corporate issuers have established and are implementing credible, scientifically based net zero transition plans that are compatible with the goal of limiting global temperature increases in this century to 1.5˚C.

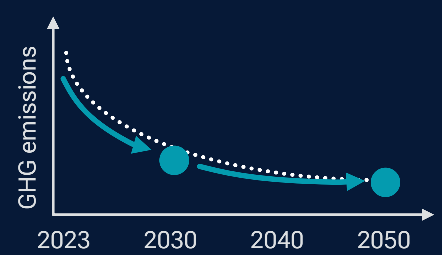
It is based on the PAII NZIF.

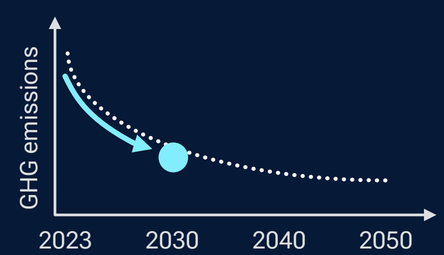
We assign corporate issuers to one of five categories, depending on the extent to which they have certain aspects of transition planning in place, including ambition, targets, emission performance, disclosure, decarbonization strategy, and capital allocation alignment. The categories are below:

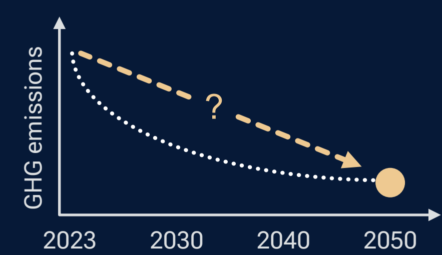
# Proprietary Assessment of Issuers' Net Zero Alignment

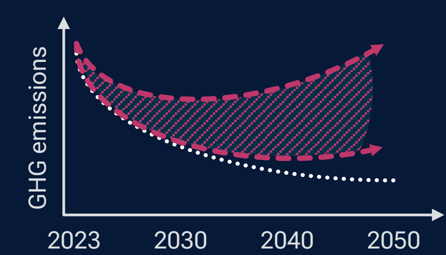
### Each security is assigned a net zero status based on the Paris Aligned Investment Initiative (PAII) Net Zero Investment Framework[7]




## Achieving

- Current GHG emissions are close to or have already achieved net zero
- Capital allocation plan supports achievement of net zero
- Adequate disclosure of GHG emissions

## Aligned

- Net zero target that meets regional/sectoral 1.5°C pathway
- Short- and medium-term targets aligned to regional/ sectoral 1.5°C pathway
- Adequate GHG emissions disclosure
- Credible decarbonization plan supported by adequate capital allocation
- GHG emissions performance should already be in line with regional/ sectoral 1.5°C pathway

## Aligning

- Short- and medium-term targets aligned to regional/ sectoral 1.5°C pathway
- Adequate GHG emissions disclosure
- Credible decarbonization plan supported by adequate capital allocation

## Committed

- Net zero target that meets regional/sectoral 1.5°C pathway is in place

## Not Aligned

- No net zero target
- Net zero target does not meet 1.5°C pathway


For illustrative purposes only.
The dotted white line represents emission reductions aligned with a 1.5°C pathway.

[7] Source: Institutional Investors Group on Climate Change (IIGCC). See Glossary of Terms for further information.

# Operations

# Board Oversight

## Committees of the Board of Directors

Our Board has an Audit Committee, an Executive Compensation and Management Development Committee (ECMDC), a Nominating and Corporate Governance Committee (NCGC), and an Executive Committee.

## Committee Charters

Current copies of the charters of the Audit Committee, the ECMDC, and the NCGC; our Corporate Governance Guidelines; and our Code of Ethics for Principal Executive and Senior Financial Officers can be found on our website.

## Committees With ESG Oversight

We recognize that sustainability touches all parts of our business. To ensure we are appropriately identifying and managing potential sustainability-related risks and opportunities, such as climate risk, we have incorporated sustainability considerations into our core business functions, including those of our Board.

- **The Nominating and Corporate Governance Committee (NCGC)** oversees ESG across the firm. This includes ESG matters related to both the firm's operations and our investment activities, such as monitoring performance objectives and progress against our climate-related corporate goals and targets. The NCGC approved the firm's Scope 1 and 2 net zero target at its February 2023 meeting. The head of ESG Enablement generally briefs the NCGC biannually. As part of these regular briefings, the NCGC received an update on the firm's ESG strategy in October 2023. In January 2024, the head of ESG Enablement provided an update on progress against our corporate goals, including the firm's net zero emissions target. At the May 2024 meeting, the NCGC approved this report, including our Investor Climate Action Plan (ICAP), and disclosures for the Task Force on Climate-Related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). Only independent non-executives serve on the NCGC. Additional details on the NCGC's responsibilities are available in its charter.
- **The Audit Committee** considers ESG matters as they impact any disclosures in our financial statements, including climate-related risks. The Audit Committee receives updates from the firm's chief risk officer (CRO) and regularly discusses ESG legal and regulatory developments with our general counsel. Additional details on the Audit Committee are available in its charter.
- **The Executive Compensation and Management Development Committee (ECMDC)** is responsible for considering how ESG matters may impact management compensation. The ECMDC considers the firm's ESG efforts when reviewing and approving general salary and compensation policies for management. Additional details on the ECMDC are available in its charter.

# Management's Role

The Management Committee works to ensure that our clients' needs remain our first priority—today and in the future. Profiles of T. Rowe Price's leadership team, which is composed of 15 experts[1] with an average tenure of 15 years at the firm, may be found here.

Responsibility for ESG strategy, risk, investing, and corporate sustainability is consolidated under Eric Veiel, head of Global Investments and chief investment officer at T. Rowe Price Associates. Mr. Veiel is a member of the Management Committee. Under his leadership, our ESG Enablement and ESG Investing teams are responsible for developing and managing the firm's sustainability initiatives in their respective areas of focus.

T. Rowe Price's Management Committee oversees risks, including climate-related risks, via the Enterprise Risk Management Committee (ERMC), which is chaired by the firm's chief risk officer (CRO).

Recognizing that ESG activities are present across multiple business units, the firm created the ESG Oversight Committee (ESGOC) in 2023. Chaired by the firm's head of ESG Enablement, the ESGOC serves as a central and global oversight body and supports governance around our ESG activities. The ESGOC reports to the Investment Management Steering Committee (IMSC), with regular updates to the ERMC. Mr. Veiel and the CRO serve on the ESGOC.

The ESGOC is responsible for:

- Developing and driving T. Rowe Price's overarching ESG strategy
- Approving ESG-related memberships, disclosures, and corporate sustainability policies
- Ensuring coordinated, consistent, and prioritized execution of ESG initiatives and management of ESG risks
- Fostering ESG collaboration across the organization
- Embedding operational support for ESG across the organization at scale
- Monitoring performance against goals and targets.

Oversight of ESG investing policies, ESG integration, sustainable and impact investment, engagement, and proxy voting processes resides with T. Rowe Price's ESG Investing Committees, which are made up of senior leaders at the firm.

Further resources that our organization relies on to help identify and assess climate-related risks and opportunities and to scope possible adaptation and mitigation strategies include:

- Third-party research
- Trade associations
- Sustainability reporting frameworks from organizations such as SASB, TCFD, and the International Sustainability Standards Board (ISSB).

[1] Management Committee member Robert Higginbotham retired from the firm on December 31, 2023.

# Accountability*

The following chart illustrates the firm's ESG accountability framework

## Boards and Committees

*The ESG Enablement team provides regular updates to the Nominating and Corporate Governance Committee, and Risk provides regular updates to the Audit Committee.*

**T. Rowe Price Group Board of Directors**
Audit Committee

- Executive Compensation and Management Development Committee (ECMDC)
- Nominating and Corporate Governance Committee (NCGC)

**T. Rowe Price Funds/Trusts Board of Directors**

**Management Companies/Investment Advisers**

*Provide updates on proxy voting, exclusion policies, and other ESG investment processes.*

**T. Rowe Price Management Committee**
Oversees corporate strategy and implementation.

*Eric Veiel, head of Global Investments and CIO, TRPA, has responsibility for ESG, including investment, operations, and corporate activities.*

**Investment Management Steering Committee (IMSC)**

**Enterprise Risk Management Committee (ERMC)**

**Investment Steering Committees**

**ESG Oversight Committee (ESGOC)**
Oversees ESG operational activities, including development and implementation of ESG strategy, initiatives, and corporate ESG activities.

**ESG Investing Committees (TRPA and TRPIM)**
Oversees ESG investing activities, including ESG policies, engagement program, proxy voting, exclusion lists, and ESG investment frameworks (such as the Responsible Investing Indicator Model (RIIM)**, impact, net zero, etc.).

## Implementation Teams

**ESG Enablement**
Responsible for developing and implementing the firm's ESG strategy. This includes ESG activities outside those related to investment process, such as:

- T. Rowe Price's ESG strategy
- Execution of ESG initiatives
- Product, marketing, and corporate ESG
- Fostering ESG collaboration across the organization

**Risk**
Monitors the firm's risks from an investment and operational perspective. This includes climate risk and other ESG risks.

**Investment Platforms (TRPA and TRPIM)**

**Portfolio managers** are accountable for integrating and monitoring ESG factors across portfolio holdings, engagement, and proxy voting as appropriate to their mandate.

**Investment analysts** are accountable for integrating ESG factors into their research process and investment analysis.

**ESG specialists** support analysts and portfolio managers by providing ESG analytics, issuer and thematic research, portfolio analysis, and stewardship activities.

* As of January 1, 2024. The information provided in this report and related materials does not include content relating to Oak Hill Advisors, L.P. (OHA), an alternative credit manager that T. Rowe Price Group, Inc., acquired on December 29, 2021, unless otherwise noted.

** RIIM refers to the proprietary responsible investing indicator models 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. TRPA RIIM has a framework for rating corporate, sovereign, securitized, and municipal issuers, whereas TRPIM RIIM only has a framework for rating corporate issuers.

## Steering Committees

Our Management Committee has established various steering committees to assist it in setting the strategic policy and direction for specific areas of the firm. These include Ethics; U.S. Equity; Fixed Income; International Equity; Multi-Asset; Investment Management; Enterprise Risk Management; Strategic Operating Committee; Diversity, Equity, and Inclusion; Retirement Leadership Council; Management Committee; Corporate Strategy Committee; Product Strategy; and ESG Oversight Committee.

## Incentive Alignment

Our investment professionals are responsible for incorporating sustainability risks and ESG factors, including climate-related risks and opportunities, into their investment recommendations and investment decisions, as appropriate to the mandate. T. Rowe Price holds its portfolio managers and analysts accountable for doing so by incorporating the extent of the integration of such analysis into their individual investment processes as part of the assessment criteria in year-end performance reviews and compensation. ESG integration and sustainability risk incorporation are considered as qualitative components of the year-end performance assessment.

Our dedicated ESG specialist teams have clear objectives and are compensated with variable pay related to achieving these objectives. A development plan is set out and a full year-end appraisal is carried out to ensure expectations are met.

Compensation of our senior leaders is not tied directly to ESG-related key performance indicators; however, each Management Committee member has goals tied to diversity, equity, and inclusion.

# Climate-Related Risks and Mitigation Strategies

The following table outlines the climate-related risks that might impact the firm's products, investment strategies, and corporate operations.

X = Significant S = Short term (less than 1 year) M = Medium term (2–5 years) L = Long term (5+ years)

| Description | Mitigation | Monitoring Process | Potential Impact |
|---|---|---|---|
| **Transition Risks** | | | |
| **Regulatory** X S M L<br>New regulations and changes in existing regulation may lead to increased compliance costs, enhanced reporting obligations, regulation of existing products and/or services, exposure to litigation, and aggressive or inconsistent levels of regulatory enforcement globally. If regulators take differing approaches (versus adopting global standards), this could increase costs. | Dedicated resources to monitor and review global ESG/climate regulatory proposals (pre-implementation stage) and determine impact to T. Rowe Price. Project management and business resources are engaged to ensure final regulatory requirements are met and implemented in a timely manner. | The risk of litigation claims, as well as existing and emerging regulatory requirements related to climate change, are continuously evaluated by our Legal, Compliance, and Audit Department and incorporated into the firm's overall risk management program. | ▪ Change in client preferences for investment products<br>▪ Increased compliance costs<br>▪ Regulatory fines<br>▪ Carbon taxes levied or other environmental fines<br>▪ Increased costs for ESG data |
| **Technology** S M L<br>Transitioning to lower-emissions technologies for our own corporate footprint, along with the substitution of existing assets and related services with lower-emissions options, may require additional expenditure. | Evaluation of energy/power use per building. Invest in lower-emitting technology over time. Movement to cloud and Software as a Service from on-premise. Evaluation of energy costs within build versus buy analysis for new hardware and software. | T. Rowe Price tracks costs inherent to transitioning to lower-emissions technologies for its own corporate footprint, along with the substitution of existing assets and related services with lower-emissions options. | ▪ Substitution of obsolete assets<br>▪ Capital investments in new technologies<br>▪ Costs to adopt lower-emissions processes |
| **Market (Investment Performance Related)** X M L<br>Energy transition may drive volatility in financial market performance and/or deviation in performance across specific regions and industries. The risk may be further exacerbated in the event of a disorderly transition. | We consider material climate factors part of our investment process through our proprietary RIIM tools. Portfolio managers and analysts consider these data as a part of the investment process. As predominately active investors, the firm is well positioned to evaluate the impact of this systematic change and take action, as warranted, on a case-by-case basis. | Analysts and portfolio managers are accountable for considering climate-related factors within their investment process as part of ESG integration. This is considered as part of year-end performance evaluation and incentive compensation. Additionally, the firm's active stewardship program helps mitigate climate risks within investment portfolios. | ▪ Volatile or unfavorable market conditions leading to underperformance of investment portfolios |

| Description | Mitigation | Monitoring Process | Potential Impact |
|---|---|---|---|
| **Transition Risks** | | | |
| **Market (Product Related)** X S M L<br>Climate change may influence client preferences by increasing the demand for investment products oriented toward climate change mitigation. Clients may request more customization on their separate accounts and/or pooled vehicles in order to align with their individual climate goals. Conversely, a climate backlash could negatively impact demand for climate- or transition-related products. | We have a range of Article 8 and impact products. In addition, we offer clients bespoke solutions to meet their needs. Our ESG commercialization strategy is expanding our client offer to include Net Zero Transition investment options and thematic strategies. | The ESG Enablement team is responsible for working in partnership with the Product team to execute our strategy for investment product offerings with environmental and/or social mandates. | ▪ Lower market share if product suite does not align with client preferences<br>▪ Increased costs associated with providing more customized products<br>▪ Increased costs for ESG data<br>▪ Reduced assets under management |
| **Operations** M L<br>Regulatory environmental standards may require participation in energy reduction initiatives, energy efficiency programs, or renewable energy programs. | We are targeting net zero Scope 1 and 2 emissions by year-end 2040 and a 75% reduction by year-end 2030 compared with our 2021 baseline. Our strategy may consider evaluation of energy contracts and energy efficiency improvements in our operations, among other initiatives. Our net zero strategy may help reduce long-term utility costs and avoid expected carbon penalties that would be imposed on our Colorado operations (via the Energy Performance for Buildings HB21-1286 statute) beginning in 2026, and operations in Maryland (via the Maryland Building Energy Performance Standards as required by the Climate Solutions Now Act of 2022). Timing for Maryland penalties is unknown as the performance standards are still under review. | These considerations are reflected in the firm's environmental management planning strategy, managed by our Corporate Real Estate & Workplace Services team. | ▪ Increased costs from carbon taxes or other environmental levies |
| **Reputation** X S M L<br>If we are perceived to fall short of our own corporate commitments or stakeholder expectations on climate and sustainability, particularly in regard to our fiduciary duty to clients, this may impact our brand, influence clients' willingness to do business with us, and affect our workforce's willingness to remain. It also exposes us to potential litigation risk. | We have corporate sustainability goals related to GHG emissions reduction and our facilities. Our commitments are articulated in our public disclosures (e.g., TCFD, SASB, website, Stewardship Report). Furthermore, we believe that the work that we have done to strengthen our climate analysis since becoming a signatory of NZAM will benefit clients over the long term and enable us to deliver our fiduciary duty by helping portfolio managers make more informed investment decisions. | T. Rowe Price has a comprehensive risk management program in place that is designed to help reduce any impact on clients or the firm. This multilayered, cross-functional approach ensures that the firm routinely tracks shifts in client preferences, associate feedback, and stockholder ratings and assessments. | ▪ Drop in stock price due to negative stakeholder feedback<br>▪ Negative impact on workforce management (i.e., employee attraction and retention)<br>▪ Reduced assets under management due to negative client feedback |

| Description | Mitigation | Monitoring Process | Potential Impact |
|---|---|---|---|
| **Physical Risks** | | | |
| **Acute** X S M L<br>An extreme weather even—such as a cyclone, wildfire, or flood—that impacts the firm's locations or the location of a vendor servicing the firm may affect our day-to-day operations, potentially resulting in increased costs and workforce disruptions. | The firm has local crisis management plans that ensure business continuity by mobilizing resources—employees and facilities—to address the fallout of an acute event in order to sustain service levels for clients. The Corporate Real Estate & Workplace Services team will be developing a future leasing strategy that will formally assess and consider the impact of physical climate risks on our facilities. | External events, such as severe weather or natural disasters, receive ongoing attention, given their potential impact on business activities, including impacts to our facilities and related infrastructure and technologies. Our ERG oversees business continuity and factors extreme weather events in business continuity planning. | ▪ Loss of workforce productivity<br>▪ Disruptions to supplier engagements<br>▪ Negative impact to valuations could result in declines in asset values and potential loss of revenue<br>▪ Increased operating and capital costs to manage the impact of the event |
| **Chronic (Investment Performance Related)** S M L<br>Within our investment portfolios, changes in weather patterns around the world can impact companies in which the firm invests on behalf of our clients. Weather pattern changes may cause our investment professionals to reevaluate investments in affected companies. Valuations may be impacted, resulting in declines in asset values and potential loss of revenue. | We incorporate climate-related investment analysis into our investment process to mitigate the potential impact on our portfolios. | Analysts and portfolio managers are accountable for considering climate-related factors within their investment process as part of ESG integration. This is included as part of their year-end evaluation and compensation. Additionally, the firm's active stewardship program helps mitigate climate risks within investment portfolios. | ▪ Negative impact to asset valuations could result in declines in assets under management and potential loss of revenue. |
| **Chronic (Operations Related)** M L<br>Rising sea levels may increase the risk of flooding to our Baltimore office, and increasing wildfires could impact our operations in various locations. Additionally, because of extreme variability in weather patterns, we may experience increased costs related to more frequent cooling and heating needs inside our buildings. | Corporate Real Estate & Workplace Services plans to embed physical risk considerations into a future leasing strategy, working with the Business Continuity team to ensure that there is sufficient considerations in business continuity planning. | Our headquarters is our largest waterfront location. The National Oceanic and Atmospheric Administration's Sea Level Rise Map shows that our new headquarters at Harbor Point will not be effected by sea level rises of seven feet. However, surrounding roadways and infrastructure may be impacted by sea level rises of three feet or more. Our remote work capabilities enable associates to work from home if roadways and infrastructure used to commute are compromised. Our Business Continuity team is developing a long-term plan that seeks to assess and mitigate specific impacts to all locations over 10 to 30 years. | ▪ Increased operating and capital costs<br>▪ Increased insurance premiums and potential for reduced availability of insurance<br>▪ Reduced ability to attract talent |

# Policy and Engagement

Our Public Policy Engagement and Political Participation Policy governs the firm's approach to advocacy, including through our participation in trade associations.

Our Legislative and Regulatory Affairs (LRA) team, together with other key internal stakeholders, participates in advocacy initiatives on a selective and strategic basis. We may provide input to relevant trade associations or engage individually on a particular regulatory consultation.

One of our key advocacy priorities is to support the improvement of climate-related financial reporting aligned to current and upcoming standards, including the International Sustainability Standards Board (ISSB). We believe that the adoption of both of the ISSB's IFRS S1 (general sustainability) and S2 (climate-related) disclosure standards represent a significant step toward aligning voluntary corporate sustainability reporting frameworks in order to provide decision-useful disclosures for investors. In this regard, in 2023, we responded to two consultations conducted by the UK government, where we expressed support for the UK's adoption of both of the ISSB standards: IFRS S1 (general sustainability) and S2 (climate-related) disclosure standards. Advocating for ISSB standards adoption supports our advocacy commitment under the Net Zero Asset Managers initiative (NZAM) of achieving global net zero emissions by 2050 or sooner.

In addition, our ESG investment professionals participate in a variety of working groups globally to help define and develop standards and frameworks that promote best practices. For example, TRPA's head of ESG, Fixed Income has joined the Sovereigns and Derivatives working groups of the Institutional Investors Group on Climate Change (IIGCC) to help develop a net zero framework for sovereign bonds, paving the way for inclusion of this asset class in future NZAM commitments.

## ESG Advocacy Oversight

Following the establishment of the global ESG Oversight Committee (ESGOC) in 2023, we adopted new governance practices for our ESG advocacy. Starting in 2024, ESGOC will review on an annual basis how our direct and indirect ESG advocacy aligns with our commitment to NZAM and the Principles for Responsible Investment (PRI). The NZAM alignment assessment will specifically evaluate whether our lobbying activities support achieving global net zero emissions by 2050 or sooner. On an ongoing basis, the LRA team will assess this alignment for relevant advocacy projects and follow escalation procedures in case of nonalignment.

## ESG Memberships[1]

In 2023, the ESGOC adopted a new process for joining and maintaining corporate ESG memberships, which includes an assessment of whether the organization's views align with our NZAM and PRI commitments.

### Global initiatives and memberships

**Principles for Responsible Investment (PRI)**
Signatory since 2010

**International Capital Market Association (ICMA)**
Member since 2017; member of the ICMA Principles since 2022: Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG), and Sustainability-Linked Bond Principles (SLBP); member of the ICMA Advisory Council since 2023

**International Corporate Governance Network (ICGN)**
Member since 2021

**United Nations Global Compact**
2021 signatory

**IFRS Sustainability Alliance (formerly the SASB Alliance)**
Member since 2021

### Regional initiatives and memberships

**UK Stewardship Code**
Signatory since 2020

**Pensions and Lifetime Savings Association (PLSA)**
Stewardship advisory group member since 2020

**30% Club UK Investor Group**
UK chapter member since 2021

**UK Investor Forum**
Founding member since 2016

**Council of Institutional Investors (CII)**
Associate member since 1989

**Investor Stewardship Group (ISG)**
Founding member since 2017

**Japan Stewardship Code**
Signatory since 2014

**Asia Corporate Governance Association (ACGA)**
Member since 2016

**Japan Stewardship Initiative**
Founding member since 2019

**Associação de Investidores no Mercado de Capitais (AMEC)**
Member since 2015

**Emerging Markets Investors Alliance**
Member since 2020

[1] As of December 31, 2023, at least one T. Rowe Price entity is a signatory, founder, or member of the following groups committed to change. T. Rowe Price may be a member of other initiatives, standards, principles, working groups, or other organizations not listed. Additionally, individual T. Rowe Price associates may be members of working groups not listed.

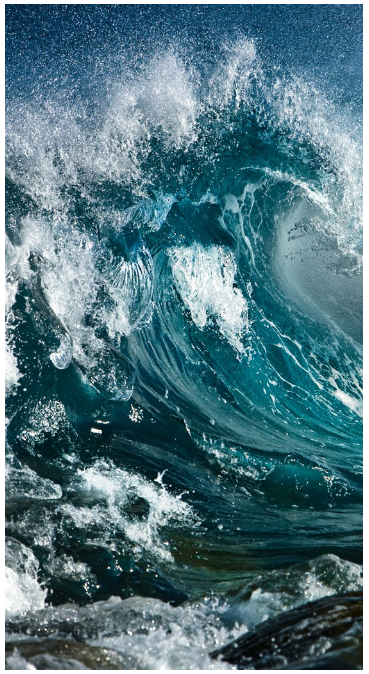
### Climate related

**Institutional Investors Group on Climate Change (IIGCC)**
Member since 2020

**Task Force on Climate-Related Financial Disclosures (TCFD)**
Supporter since 2020

**TCFD Consortium (Japan)**
Member since 2021

**Net Zero Asset Managers initiative (NZAM)**
Signatory since 2022



### Thematic engagement

**Farm Animal Investment Risk & Return (FAIRR)**
Member since 2020

**Access to Medicine Index**
Signatory since 2021

**Access to Nutrition Initiative**
Signatory since 2022

### Impact investing

**Responsible Investment Association Australasia (RIAA)**
Member since 2020

**Global Impact Investing Network (GIIN)**
Member since 2021

**Japan Impact-driven Financing Initiative**
Signatory since 2022

### Working groups

**ACGA Japan Working Group**
Member since 2020

**Investment Association Climate Change Working Group**
Member since 2020

**IMEA (Investment Management Education Alliance) ESG Committee**
Member since 2021

**ACGA China Working Group**
Member since 2022

**ICMA (Impact Reporting, Social Bonds, Climate Transition Finance, Sustainability-Linked Bonds)**
Member since 2022

**Taskforce on Nature-related Financial Disclosures (TNFD)**
Forum member since 2022

**GC100 and Investor Group – Directors' Remuneration Reporting Guidance**
Member since 2023

**IIGCC (Sovereign Bonds and Country Pathways Working Group; Derivatives and Hedge Funds Working Group)**
Member since 2023

## Trade Associations

For a full list of the corporate memberships[2] that T. Rowe Price maintains with trade associations[3] and to which $25,000 or more in membership fees and/or dues were paid in the past 12 months, please refer to the Policies and Disclosures on Political Activities section on our Policies webpage.

[2] Corporate memberships refer to the memberships with trade associations that are maintained by T. Rowe Price as a corporate entity. The individual memberships of individual employees of T. Rowe Price are not included in this definition.
[3] T. Rowe Price defines "trade associations" as industry trade groups, business or sector associations, and other organizations that are focused primarily on promoting the specific interests of its members and providing a forum for collaboration between member entities. We do not consider organizations that are primarily focused on providing certifications or on providing educational opportunities for its members as trade associations.

# Training and Culture

## Training on ESG Topics

We believe that continually building awareness and knowledge of ESG among our global associates is critical to help us meet the evolving needs of our clients and to strengthen our ESG capabilities. We have a number of ESG investing education programs tailored to different business groups, including:

- **New analyst orientation** - Each new investment analyst who joins T. Rowe Price is trained in responsible investing and corporate governance as part of an in-depth, multiday department orientation.
- **Discussion forums** - In addition to new analyst training, we hold forums with investment professionals across the firm to explore the integration of ESG factors in the investment process.
- **ESG global and regional training** - Our ESG investment specialists, product, and legal and compliance teams provide regular ESG education sessions throughout the year, spanning topics such as regional ESG regulation; ESG product initiatives; our proprietary RIIM tools; impact investing; ESG ratings; and our commitment to the Net Zero Asset Managers initiative (NZAM).
- **Chartered Financial Analyst (CFA)** - We support the development of our staff through training and development opportunities relevant to their roles, such as completion of the Chartered Financial Analyst qualification and CFA Institute Certificate in ESG Investing. (CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.)

In addition to content designed specifically for our investing teams, our distribution teams receive updates on relevant ESG topics and our ESG capabilities to ensure that they maintain the skills, knowledge, and expertise needed to perform their roles effectively.

In 2023, we offered global associates training from **Fitch Learning**, an external supplier. The certification covered four modules: ESG factors, ESG market and engagement, integrating ESG into investment analysis, and integrating ESG into portfolio management. In 2023, we had a 95% successful completion rate for the Fitch ESG Foundation Certificate among the global associate population that registered, compared with a 76% completion rate in the previous year. In addition, in 2023, we partnered with Fitch Learning to roll out the Fitch ESG Advanced course for our Distribution teams globally. Modules included ESG Reporting Framework, Sustainable Finance, Impact Investing, and Climate Fundamentals. In 2023, we also offered certain global client-facing associates responsible investing-related training from **PRI Academy**, an external supplier.

We continue to expand our library of on-demand online content, including podcasts, recordings, interviews, and eLearning tools to support live sessions on a variety of topics that include:

- Responsible investing and corporate governance
- Integration of environmental and social factors in the investment process
- In-depth modules on specialties such as impact investing
- Proprietary ESG tools, capabilities, and products
- ESG regulations, such as the Sustainable Finance Disclosure Regulation (SFDR)
- Initiatives such as NZAM

Our Corporate Sustainability team partners with others in the organization to keep associates across our global business informed and updated on our internal corporate sustainability strategy.

Additionally, we held two internal general-audience events with the head of ESG Enablement—an Ask Me Anything event (April) and a T. Rowe Talk firm event (November). The latter was part of an internal series aiming to help further connect our associates with strategic focus topics for the firm, such as ESG.

As we look to the future, we will continue to develop more content and education sessions to meet the needs of our associates and evolve with regulatory and governance requirements.

## Embedding Sustainability in Our Culture

Fostering a culture that embraces sustainability is essential to achieve the firm's environmental goals. We achieve this through programming managed by the ESG Enablement and Corporate Real Estate & Workplace Services teams and the firm's associate-led Global Sustainability Network.

To help associates understand their personal carbon footprint and consider actions to address it, the firm partnered with Climate Vault to launch a carbon emissions calculator for our workforce. After using the calculator to estimate their emissions, associates can consider making a donation to Climate Vault to address their partial or full carbon footprint. Donations to Climate Vault are matched by the firm as part of its global Matching Gift program. Climate Vault also serves as the firm's partner to address emissions from business travel. Additional information on the partnership is on page 49.

Recognizing the pivotal role each individual plays in shaping a sustainable future, the firm's Global Sustainability Network spearheads initiatives that integrate sustainability into our culture. The Global Sustainability Network works to engage our workforce through a variety of events and content throughout the year.

One such initiative is our e-waste recycling. This annual event actively involves our associates in the reduction of electronic waste, contributing significantly to our firm's broader efforts to minimize waste. Associates bring in their old electronics for recycling, aligning their actions with our commitment to the circular economy.

Additionally, each spring, the Global Sustainability Network hosts a nature photography contest. This initiative celebrates biodiversity and serves as a powerful awareness-raising tool. We plan to showcase the associate submissions in our new London headquarters.

The team's commitment to sustainability extends beyond events to regularly published communications. Our Global Sustainability Network continuously develops engaging content, such as blogs, articles, and internal communications, to keep our associates informed and inspired.

# Measuring the Climate Impacts of Our Operations

T. Rowe Price's GHG emissions are calculated according to the methodology set forth by the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard.

## 2023 Emissions by Scope

The reporting period is January 1 to December 31, 2023.

| 2023 GHG Iventory[1] | | MT $CO_2e$ |
|---|---|---|
| **Total Scope 1 Emissions** | | **681** |
| | On-Site Fuel Use | 402 |
| | Fleet Fuel Use | 35 |
| | Refrigerants | 244 |
| **Total Scope 2 Emissions (Location-Based)** | | **18,340** |
| **Total Scope 2 Emissions (Market-Based)** | | **18,649** |
| | Purchased Electricity Location-Based | 17,894 |
| | Purchased Electricity Market-Based | 18,203 |
| | Purchased Steam | 446 |
| **Total Scope 3 Emissions** | | **130,124** |
| Category 3.1 | Purchased Goods and Services | 78,553 |
| Category 3.2 | Capital Goods | 21,328 |
| Category 3.3 | Fuel- and Energy-Related Activities | 3,866 |
| Category 3.5 | Solid Waste | 277 |
| Category 3.6 | Business Travel | 8,504 |
| | Air Travel | 8,374 |
| | Train Travel | 130 |
| Category 3.7 | Employee Commuting | 16,914 |
| | Commuting to Office | 13,252 |
| | Telecommuting | 3,662 |
| Category 3.13 | Downstream Leased Assets | 682 |
| Category 3.15 | Investments | See page 26 |
| **Total GHG Emissions (Location-Based)** | | **149,145** |
| **Total GHG Emissions (Market-Based)** | | **149,454** |

[1] Unless otherwise noted, the information provided in this report and related materials do not include content relating to Oak Hill Advisors, L.P. (OHA), an alternative credit manager that T. Rowe Price Group, Inc., acquired on December 29, 2021.

## Inventory Boundary and Methodology

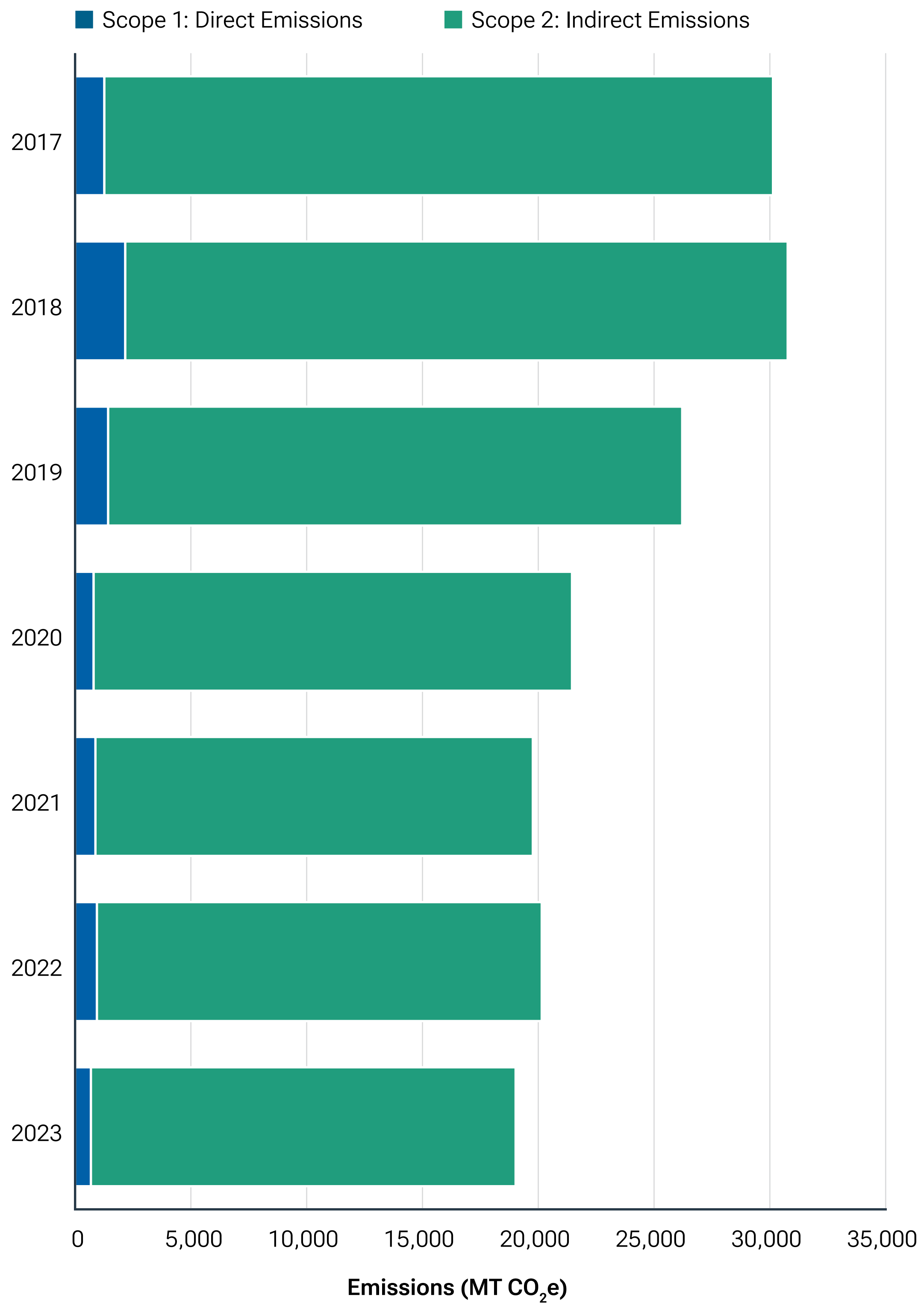
T. Rowe Price uses an operational control approach, which accounts for all the GHG emissions from operations over which we have control. This includes owned and leased facilities and data centers, but excludes co-location facilities, which are included in Scope 3.1 (Purchased Goods and Services) emissions. Exclusions to the operational control approach are the GHG emissions generated by the operations of OHA and Retiree Inc.'s facility. T. Rowe Price will generally restate GHG emissions if any changes result in a 5% or greater cumulative change in emissions. We convert all emissions to a common GHG metric, $CO_2$ equivalent.

The following table details our methodologies used to calculate emissions and lists the categories of Scope 3 emissions relevant for T. Rowe Price:

| Scope | Dataset | Calculation Methodology |
|---|---|---|
| Scope 1 | Fuel consumption | **Assumptions**<br>▪ Estimated refrigerant type (78%) is based on location and building use for non-reporting facilities.<br>▪ Refrigerant leakage amount is based on rate and building square foot.<br>▪ Fleet mileage is based on lease maximums and 2022 data.<br>**Emissions Factors**<br>▪ IPCC 2006 Guidelines, Volume 2: Energy: Chapter 2: Stationary Combustion, Table 2.4 and Chapter 3: Mobile Combustion, Table 3.2.1<br>▪ EPA Emission Factors for Greenhouse Gas Inventories, Table 3 |
| Scope 2 | Electricity and steam consumption | **Assumptions**<br>▪ Utility invoices were utilized for owned properties and leased properties with submeters. When data were received for whole-building consumption, they were prorated on a square foot basis.<br>▪ Estimates were used for buildings where we have partial tenants or data could not be obtained.<br>**Emissions Factors**<br>▪ U.S. – EPA's Emissions & Generation Resource Integrated Database (eGrid) 2022<br>▪ Canada – Canada 2022 National Inventory Report, UNFCCC<br>▪ All other International – International Energy Agency (IEA) 2023<br>▪ EPA Emission Factors for Greenhouse Gas Inventories, Table 7 |
| Scope 3.1 – Purchased Goods and Services | Annual spend | **Emissions Factors**<br>▪ U.S. EPA Supply Chain Greenhouse Gas Emission Factors v1.2 by NAICS-6 |
| Scope 3.2 – Capital Goods | Annual spend | **Emissions Factors**<br>▪ U.S. EPA Supply Chain Greenhouse Gas Emission Factors v1.2 by NAICS-6 |
| Scope 3.3 – Fuel- and Energy-Related Activities | Energy-related activity data collected for Scope 1 and 2 | **Emissions Factors**<br>▪ GREET 1 2023 Model<br>▪ UK – DEFRA: 2023 Conversion Factors – Well to Tank (WTT)<br>▪ U.S. – EPA's Emissions & Generation Resource Integrated Database (eGrid) 2022<br>▪ Canada – Canada 2022 National Inventory Report, UNFCCC<br>▪ All other International – International Energy Agency (IEA) 2023<br>▪ EPA Emission Factors for Greenhouse Gas Inventories, Table 7 |

| Scope | Dataset | Calculation Methodology |
|---|---|---|
| Scope 3.5 – Waste | Waste type | **Assumptions**<br>▪ Estimates were used for buildings where data could not be obtained.<br>▪ When data were received for whole-building waste, they were prorated on a square foot basis.<br>**Emissions Factors**<br>▪ EPA Emission Factors for Greenhouse Gas Inventories, Table 9 |
| Scope 3.6 – Business Travel | Distance traveled and spend | **Assumptions**<br>▪ Based on known air and rail travel. Excludes automotive travel and hotel stays.<br>▪ Approximately 80% of air and rail travel booked through our travel provider, which includes information on distance traveled. The remainder is captured in our expense system without details on distance traveled.<br>▪ Spend data collected by our travel provider were scaled to capture travel documented in our expense system, where data on distance traveled are absent.<br>**Emissions Factors**<br>▪ Air: Follows the guidance from the EPA Emission Factors for Greenhouse Gas Inventories, Table 10, and utilizes DEFRA GHG Conversion Factors 2022<br>▪ U.S. Rail: EPA Emission Factors for Greenhouse Gas Inventories, Table 10<br>▪ International Rail: DEFRA GHG Conversion Factors 2023 |
| Scope 3.7 – Employee Commuting | Distance traveled | **Assumptions**<br>▪ Utilized employee survey results on 2022 commuting patterns to scale emissions based the number of hybrid employees as of December 31, 2023.<br>▪ Assumes employees work 42 weeks per year, accounting for global holidays and paid leave.<br>▪ Teleworkers' full-time workweek is applied to telecommuting calculation.<br>**Emissions Factors**<br>▪ Commuting: Federal Highway Administration; AFLEET<br>▪ Telecommuting: Energy Statistics Data Browser – Data Tools – IEA |
| Scope 3.13 – Downstream Leased Assets | Fuel and electricity consumption | **Assumptions**<br>▪ Includes purchased electricity and natural gas and gas diesel oil consumption from facilities leased by T. Rowe Price (the lessor) to a third party (the lessee). Emissions included in this category are the lessee's Scope 1 and 2 emissions.<br>**Emissions Factors**<br>▪ IPCC 2006 Guidelines, Volume 2: Energy: Chapter 2: Stationary Combustion, Table 2.4<br>▪ U.S. – EPA's Emissions & Generation Resource Integrated Database (eGrid) 2022<br>▪ All other International – International Energy Agency (IEA) 2023 |
| Scope 3.15 – Investments | Portfolio holdings | See page 24 |

## Scope 1 and 2 Emissions Trends




## Scope 1 and 2 Emissions Target

To support the goals of the Paris Climate Agreement to limit the increase of global temperatures to 1.5˚C, we are committed to reducing GHG emissions associated with our operations. We are targeting net zero Scope 1 and 2 emissions by 2040 and have an interim target to achieve a 75% reduction by 2030 compared with our 2021 baseline. This includes, but is not limited to, pursuing renewable electric supply and energy efficiency improvements in our operations. Our road map for achieving net zero Scope 1 and 2 emissions by 2040 is based on materiality, as we seek to address our largest sources of emissions first. Our Maryland-based utilities generate the largest portion of our Scope 1 and 2 emissions. Consequently, switching to renewable energy in our Maryland-based facilities represents the most significant step toward reducing our greenhouse gas emissions and is, therefore, our highest priority.

Our contract with our energy supplier in Maryland expires at the end of 2024, and we are currently reviewing supplier bids to procure off-site renewable energy. While we do not expect to fully transition our Maryland locations to renewable energy by the contract expiration in 2024, we anticipate that by year-end 2030, all the electricity in our owned Maryland offices will be provided by renewable sources.

To address our remaining Scope 2 emissions, we have developed a timeline to convert our global offices to green power from brown power where available. The most recent example of this is our office move in London to Warwick Court, which opened in September 2023. The building is powered by 100% renewable electricity from high-quality contracts that meet UK Green Building Council requirements for net zero carbon and RE100 requirements.

We have offices in select global locations that currently do not offer renewable energy. We are hopeful that renewable energy options will become available in advance of our 2040 goal.

Furthermore, we have multiple opportunities to reduce Scope 1 and 2 emissions at our leased sites before 2040, and we plan to work closely with our landlords to procure green energy where available. As older equipment becomes obsolete, we will install more efficient replacements, selected to specifically support our net zero strategy.

## Year-Over-Year Scope 1 and 2 Emissions Intensity

| Scope | Unit | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | % Change 2023 vs. 2021 baseline |
|---|---|---|---|---|---|---|---|---|---|
| **Scope 1: Direct Emissions** | MT $CO_2e$ | 1,259 | 2,162 | 1,424 | 796 | 877 | 941 | 681[2] | -22% |
| **Scope 2: Indirect Emissions*** | MT $CO_2e$ | 28,877 | 28,607 | 24,791 | 20,661 | 18,887 | 19,210 | 18,340 | -3% |
| **Total Scope 1 and 2 Emissions*** | MT $CO_2e$ | 30,135 | 30,769 | 26,215 | 21,457 | 19,764 | 20,150 | 19,021 | -4% |
| **Global Square Feet** | Thou. Square Feet | 2,356 | 2,386 | 2,392 | 2,320 | 2,212 | 2,246 | 2,310 | 4% |
| **Global Revenue** | USD Million | 4,793 | 5,373 | 5,618 | 6,207 | 7,672 | 6,488 | 6,461 | -16% |
| **Scope 1 and 2 Emissions per Square Foot** | MT $CO_2e$/Thou. SF | 12.8 | 12.9 | 11.0 | 9.2 | 8.9 | 9.0 | 8.2 | -8% |
| **Scope 1 and 2 Emissions per Revenue** | MT $CO_2e$/MUSD | 6.3 | 5.7 | 4.7 | 3.5 | 2.6 | 3.1 | 2.9 | 14% |

* Total based on location-based emissions.

## Reducing Operational Waste

After careful consideration, we have decided to reassess our 2025 goal to achieve zero waste at our facilities. This strategic decision considers the limited options for sourcing recyclable and compostable materials essential to our operations, as upstream providers fall short of their commitments to utilize environmentally friendly materials and packaging by 2025. Additionally, downstream providers are now rejecting compostable plastics and vending materials in select locations.

As we reassess our goal, sustainability remains at the forefront of the firm's commitments, and we continue to work toward reducing our operational waste. We have engaged a third-party vendor to help us reassess our waste reduction road map, recognizing the evolving landscape. This work will help inform our path forward, which we will communicate in future reporting.

## Operational Waste Management[3]

| Waste Metric | 2023 (Tons) |
|---|---|
| **Landfill** | 191 |
| **Energy recovery** | 308 |
| **Recycled** | 332 |
| **Composted*** | 84 |
| **Electronics recycling** | 69 |
| **Waste total** | 984 |

* Includes a minor portion of waste that was disposed via wet anaerobic digestion.

[2] Decrease in Scope 1 emissions in 2023 is attributed to a combination of data collection enhancements, improved energy efficiency and utilizing a greater proportion of reported data instead of estimates.
[3] This disclosure covers waste generated in the organization's own activities or within the organization's operational control. Exclusions include waste generated from OHA and Retiree, Inc. facilities. Waste metrics include waste that is landfilled, recycled (general and electronics), composted, and energy recovery (from incineration). Metrics are reported in short tons. Approximately 84% of operational waste is based on activity data received from waste removal vendors. For remaining sites, waste is estimated based on volumes from sites where activity data is available for similar activities and headcount of the estimated locations

## Working With Our Supply Chain

Our Supplier Code of Conduct has a specific focus on environmental requirements, including the establishment of operational practices to minimize impacts on the environment and to implement measures that prevent and mitigate environmental harm. Through the Supplier Code of Conduct, we also expect suppliers to track performance and report environmental improvements, as well as to set targets and commitments to reduce their respective footprints.

## Business Travel and Commuting

In 2023, we observed an increase in our business travel emissions (Scope 3.6) from 2022. This increase can be attributed to two factors: increased business travel operations and improved data collection. In the aftermath of the global pandemic, we continue to see travel increasing to levels previously seen in 2018. More business travel accounted for a 32% increase in our air and rail emissions compared with 2022. Additionally, for our 2023 GHG Inventory, we improved our data collection processes to capture air and rail trips that were booked outside of the firm's corporate travel management company. This accounted for a 26% increase from the calculated 2023 business travel emissions booked through the firm's travel management company and resulted in a 67% total increase from 2022 business travel emissions.

Our Travel Policy encourages associates to consider travel options with lower emissions, such as direct flights and traveling by rail instead of air when possible. Our travel provider shows projected emissions associated with employees' travel options to help inform their selection.

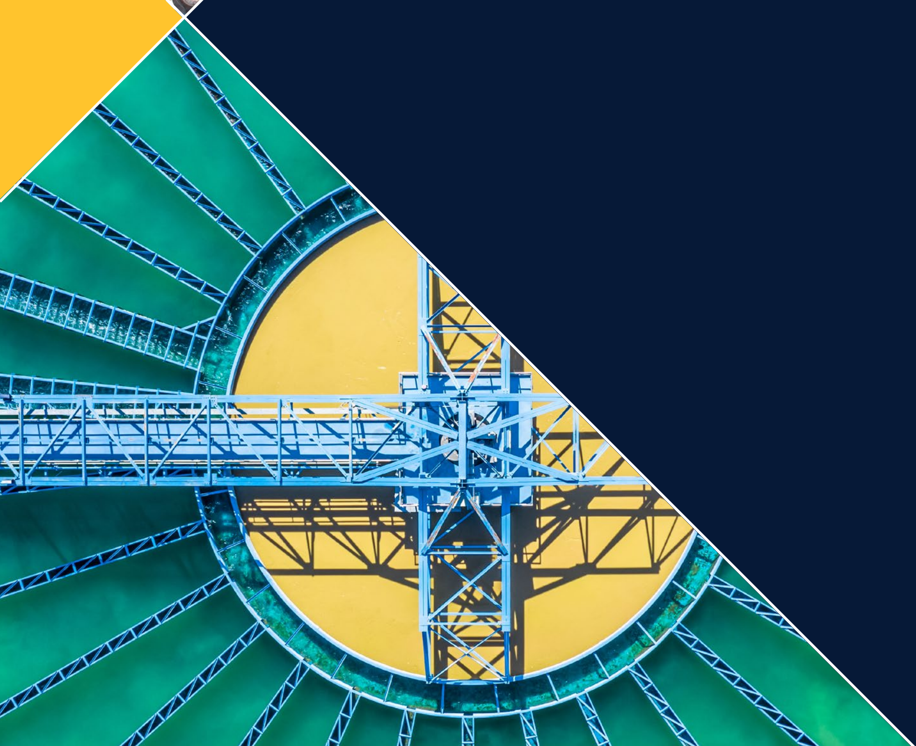
We have continued our partnership with Climate Vault, which began in 2022, to invest in climate solutions that address our emissions from travel each year. We will make a donation to Climate Vault to purchase carbon allowances for 8,504 metric tons of $CO_2$ emissions. This amount approximates total emissions generated from our business travel during 2023. We anticipate that our relationship with Climate Vault may be broadened to supplement select areas of our net zero strategy and address shortcomings in our ability to eliminate emissions.

Climate Vault is an award-winning nonprofit that has been designated by the Carbon Disclosure Project as a Carbon Reduction- and SBTi-accredited service provider. It purchases and "vaults" carbon allowances on government-regulated compliance markets. Because the number of allowances is limited, keeping them off the market decreases $CO_2$ emissions and provides a quantifiable carbon reduction. Climate Vault's approach is easily measurable (1 permit = 1 metric ton of $CO_2$), provides price transparency, and is rigorously verifiable. Climate Vault will use the monetary value of the permits to fund carbon dioxide removal technologies to eliminate the $CO_2$ already in our atmosphere. In addition to annual financial audits, Climate Vault voluntarily requests allowance audits by Baker Tilly US, LLP, which verify that all donations made toward carbon metric tons are purchased in the respective compliance market.[4]

In 2023, T. Rowe Price was the recipient of Climate Vault's Carbon Champion Game Changer award, which celebrates an organization that leads the charge against climate change by making a tangible difference in its own carbon footprint, as well as implementing diverse and creative solutions to deepen its impact. More information is available on Climate Vault's website.

In 2023, we surveyed our associates to understand and report the emissions generated from their commuting. We learned that even with a hybrid work schedule, commuting into work generated 13,252 MT $CO_2$ coming from our associates' commutes. To encourage the use of electric cars, we provide free charging stations at most of our global facilities, providing access to 82% of our global workforce as of December 31, 2023. For the first time, we have calculated emissions from telework and learned that remote work contributed 3,663 MT $CO_2$ to our total Employee Commuting (Scope 3.7) emissions.

[4] Climate Vault does not participate in the Voluntary Carbon Market. Instead, it participates in government-regulated compliance markets and is exempt under California AB 1305.



# To Learn More

Additional information on T. Rowe Price's climate-related policies is available in the following sections on the T. Rowe Price corporate website.

- **ESG Investment Approach**
- **Leadership**
- **Policies**
- **Corporate Sustainability**

# Glossary of Terms

**Acute Risks – Events/Disruptions:** Event-driven physical risks emanating from climate change, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods.

**Biodiversity:** The variety of plant and animal species on Earth, their habitats, and the ecological processes that sustain them.

**Bloomberg Industry Classification Standard:** The Bloomberg Industry Classification Standard (BICS) classifies companies by tracking their primary business as measured first by source of revenue and second by operating income, assets, and market perception.

**Carbon Footprint:** Carbon footprint is the total amount of greenhouse gas (GHG) emissions, usually measured in carbon dioxide equivalents ($CO_2e$), caused by an individual, organization, product, or activity.

**Chronic Physical Risks – Events/Implications:** Physical risks emanating from climate change that are long term in nature, such as longer-term shifts in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise).

**Circular Economy:** An economic model that aims to minimize waste and maximize resource efficiency by promoting the recycling, reuse, and regeneration of materials.

**Climate Scenario Analysis:** Climate scenario analysis (CSA) is the process of assessing the potential impacts of different climate change scenarios on an organization's operations, financials, and strategies. It helps identify risks and opportunities related to climate change.

**Climate Value at Risk:** Climate value at risk (VaR) is an output of climate scenario analysis. It is designed to provide a forward-looking and return-based valuation assessment to measure climate-related risks and opportunities in an investment portfolio. It offers insights into how climate change could affect company valuations.

**Disorderly Transition:** A disorderly transition refers to a particular climate scenario. The representative scenario for a disorderly transition shows a much more challenging pathway to meeting the Paris Climate Agreement targets.

**Energy Transition:** The shift away from the current energy system to one that emits low to zero GHG emissions. This is achieved through the use of energy efficiency measures and the shift to cleaner and more sustainable energy sources, such as renewable energy (solar, wind, hydropower).

**Enterprise Value Including Cash:** Enterprise value including cash (EVIC) is an alternate measure to enterprise value (EV) to estimate the value of a company by adding back cash and cash equivalents to EV. The underlying data used for EVIC calculation are sourced from a company's accounting year-end annual filings. EVIC is updated and reflected once a year as the data are sourced annually.

**ESG Integrated Disclosure Project:** Please refer to www.esgidp.org/ for more information.

**Exposure to Climate Solutions:** Percentage of revenues or use of proceeds aligned to economic activities that are climate solutions (i.e., renewable energy generation, sustainable agriculture, etc.).

**Financed Carbon Emissions (tons $CO_2$e/USD million invested):** Allocated emissions to all financiers (EVIC) normalized by USD million invested. Measures the carbon emissions, for which an investor is responsible, per USD million invested, by their equity ownership. Emissions are apportioned based on equity ownership (% market capitalization).

**Financed Carbon Intensity (tons $CO_2$e/USD million revenue):** Allocated emissions per allocated revenue. Measures the carbon efficiency of a portfolio, defined as the ratio of carbon emissions for which an investor is responsible to the revenue for which an investor has a claim by their equity ownership. Emissions and revenue are apportioned based on equity ownership (% market capitalization).

**Financed Emissions:** Financed emissions are those generated as a result of financial services, investments, and lending by investors and companies that provide financial services.

**Global Industry Classification Standard:** The Global Industry Classification Standard (GICS®) classifies companies in the subindustry that most closely describe the business activities that generate the majority of the company's revenues.

**Implied Temperature Rise:** The Implied Temperature Rise metric provides an indication of how companies and investment portfolios align to global climate targets. Expressed in degrees Celsius (°C), it estimates the global implied temperature rise (in the year 2100 or later) if the whole economy had the same carbon budget over-/undershoot level as the company (or portfolio) in question.

**Nationally Determined Contribution:** The nationally determined contribution (NDC) is where countries set targets for mitigating the greenhouse gas emissions that cause climate change and for adapting to climate impacts through a climate action plan that is updated every five years. The plans define how to reach the targets, as well as elaborate systems to monitor and verify progress so it stays on track.

**Network for Greening the Financial System:** The Network of Central Banks and Supervisors for Greening the Financial System (NGFS) is a group of central banks and supervisors willing, on a voluntary basis, to exchange experiences, share best practices, contribute to the development of environment and climate risk management in the financial sector, and mobilize mainstream finance to support the transition toward a sustainable economy. Its purpose is to define and promote best practices to be implemented within and outside of the Membership of the NGFS and to conduct or commission analytical work on green finance.

**Net Zero Asset Managers initiative (NZAM):** Please refer to https://www.netzeroassetmanagers.org/ for more information.

**Net Zero Status:** Net zero status indicates the level of alignment a company has with a 1.5°C warming scenario. The net zero status alignment scale includes:

- **Achieving:** Company is already achieving the emissions intensity required by the sector and regional pathway to stay within a 1.5°C warming scenario and whose ongoing investment plan or business model is expected to maintain this performance
- **Aligned:** Company has a 2050 net zero target that is supported by 1.5°C-aligned short- and medium-term targets, exhibits GHG emissions intensity performance in line with its targets, and has a credible decarbonization plan and capex alignment
- **Aligning:** Company has 1.5°C-aligned short- and medium-term targets and has a credible decarbonization plan
- **Committed:** Company has a 2050 net zero target
- **Not Aligned:** Company does not have adequate GHG reduction targets, disclosure, or performance to qualify for Achieving, Aligned, Aligning, or Committed status
- **Out of Scope:** Asset class is not yet covered by Paris Aligned Investment Initiative (PAII) Net Zero Investment Framework

**Orderly Transition:** An orderly transition refers to a particular climate scenario. The representative scenario for an orderly transition assumes immediate action is taken to reduce emissions consistent with the Paris Climate Agreement.

**Paris Aligned Investor Investment (PAII) Net Zero Investment Framework:** Please refer to parisalignedassetowners.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf for more information.

**Responsible Investing:** Responsible investing includes a variety of activities, such as ESG integration, stewardship, management of exclusion lists, security- or industry-level research, and thematic research.

**Science Based Targets initiative:** Please refer to sciencebasedtargets.org/ for more information.

**Scope 1, 2, and 3 Greenhouse Gas Emissions:** Corporate greenhouse gas emissions are broken down into Scope 1, 2, and 3, where Scope 1 and 2 emissions represent those under the company's direct control and Scope 3 emissions represent those in a company's upstream and downstream value chain.

- Scope 1–refers to all direct emissions
- Scope 2–refers to indirect emissions from consumption of purchased electricity, heat, or steam
- Scope 3–refers to other indirect emissions not covered in Scope 1 and 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities, e.g., transmission and distribution losses, outsourced activities, and waste disposal.

**Sustainability Accounting Standards Board (SASB):** Please refer to sasb.org/ for more information.

**Task Force on Climate-Related Financial Disclosures (TCFD):** Please refer to fsb-tcfd.org/ for more information.

**Total Financed Carbon Emissions (tons $CO_2e$):** Allocated emissions to all financiers/enterprise value including cash (EVIC). Measures the total carbon emissions for which an investor is responsible by their equity ownership. Emissions are apportioned based on equity ownership (% market capitalization).

**Transition Plan:** Refers to an aspect of an organization's overall business strategy that lays out a set of targets and actions supporting its transition toward a low-carbon economy, including actions such as reducing its GHG emissions.


# Index

## Governance

## ADDITIONAL INFORMATION

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## IMPORTANT INFORMATION

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