



AUSTRALIAN UNIT TRUST

## T. Rowe Price Global High Income Fund – ESG Report

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

*As of 31 December 2024*

### ESG APPROACH

- Our central mission is to help our clients reach their long-term financial goals and we believe that incorporating environmental, social and governance (ESG) factors into our investment process alongside financials, valuation, macro-economics and other factors is consistent with that objective. Our philosophy is that ESG factors are a component of the investment decision – meaning that they are not the sole driver of an investment decision, nor are they considered separately from more traditional analysis.
- The process of ESG integration takes place on two levels: first, with our research analysts as they incorporate environmental, social and governance factors into issuer valuations and ratings; and, second, with the portfolio manager as he balances these ESG factor exposures at the portfolio level. Both the analysts and portfolio manager are able to leverage dedicated, in-house resources to assist them in analyzing ESG criteria.
- Our ESG specialist teams provide investment research on ESG issues at the company level and on thematic topics. Additionally, they have built tools to help proactively and systematically analyze the environmental, social, and governance factors that could impact our investments. The foundation of the analysis is a proprietary flagging tool called the Responsible Investing Indicator Model (RIIM). It covers over 15,000 companies and pulls from data sets that are not in the wheelhouse of traditional financial analysis. These data sets include:
  - ESG performance data (e.g., number of accidents, carbon emissions, strength of whistle-blower programs, etc.);
  - ESG targets (e.g., plans to reduce carbon emissions, increase diversity, etc.)
  - ESG incidents and controversies (e.g., environmental fines paid, local community controversies/protests against a company, etc.)
- Our T. Rowe Price Global High Income Fund seeks to generate alpha by focusing on proprietary, bottom up research to identifying companies offering long-term performance potential. The Global High Income investment team examines each potential investment; each holding; and the entire portfolio with an approach deeply rooted in fundamental analysis along with a macro and industry top-down view. These processes naturally incorporate an analysis of each company's environmental, social, and governance factors. We find that this process tends to yield an ESG-friendly set of companies. However, our Global High Income investment team collaborates closely with our ESG specialists to augment their work. We also screen the portfolio using T. Rowe Price's proprietary RIIM analysis at regular intervals. This helps us understand the ESG characteristics of the portfolio and makes us aware of any exposures to specific ESG factors or how these ESG factors may impact a company's business operations and market performance.

### RECENT COMPANY ENGAGEMENTS

We maintain a regular dialogue with the management teams of companies represented across the portfolio. Our investment-driven engagement program frequently identifies targets through our proprietary RIIM analysis, governance screening and analysts' fundamental research. While we engage with companies in a variety of different contexts, ESG engagement focuses on learning about, encouraging or exchanging perspectives on the environmental practices, corporate governance or social issues affecting their business.

While most of the meetings we hold with company managements will include some discussion of ESG topics, we differentiate meetings held with a heavy focus on ESG, meaning ESG issues were the sole items on the agenda or made up a meaningful part of the meeting. Agenda items are classified as "meaningful" when they take up a significant portion of the meeting or are a significant factor in the investment case.

The following are selected examples of recent engagements with companies held in or considered for the portfolio. The examples are not meant to be representative of every engagement held, but to illustrate the types of ESG engagements we are having with the managements of our investment companies.

## CVS Health (4<sup>th</sup> Quarter 2024 Engagement)

<b>Focus</b>	Environment, Social
<b>Company Description</b>	CVS Health provides health care and retail pharmacy services.
<b>Engagement Objective</b>	We engaged with CVS Health on cybersecurity; health equity; and ESG disclosure.
<b>Participants</b>	<p>From CVS Health: Senior Vice President (SVP), Chief Sustainability Officer; SVP, Chief Governance Officer, Corporate Secretary &amp; Assistant General Counsel; VP, Compensation &amp; Workforce Analytics; Executive Director, Investor Relations</p> <p>From T. Rowe Price Associates, Inc.: Head of Corporate Governance; Responsible Investing Analyst</p>
<b>Engagement Outcome</b>	<p>We engaged with CVS Health to provide feedback on its approach to cybersecurity and health equity. Despite significant cyber risk exposure, the company provides relatively limited transparency in this area.</p> <p><b>Cybersecurity</b></p> <p>We discussed the company's approach to cybersecurity in light of the high-profile Change Healthcare cyberattack at UnitedHealth and spate of cyberattacks across the health care sector during 2024. CVS Health continues to make significant investments in this area and pointed to the significant ongoing risk related to third-party systems.</p> <p>We requested the company provide more transparency on oversight for cybersecurity/data privacy and preventative measures undertaken to avoid breaches (e.g., ISO 27001 certification, threat penetration testing, employee training) in its sustainability disclosure. The company's main impact report makes no reference to this topic. We will monitor for progress.</p> <p><b>Health equity</b></p> <p>CVS Health also provided an update on its health equity efforts. This continues to be a significant focus of the sustainability efforts of all managed care organizations or MCOs. We reiterated our interest in additional disclosure in this area. Several companies provide additional information regarding chronic condition outcomes and have set public targets related to various National Committee for Quality Assurance (NCQA)/Healthcare Effectiveness Data and Information Set (HEDIS) variables, for instance. CVS Health has not yet provided the requested disclosure, but it was receptive to the request and we extended the deadline.</p> <p><b>ESG disclosure</b></p> <p>CVS Health's Scope 3<sup>1</sup> emissions data have been highly volatile—we therefore also briefly touched on the company's approach to carbon accounting. The year-to-year swings have been driven by changes to the company's approach to measuring emissions from purchased goods and services. The company is seeking to increase the use of primary data (rather than spend-based estimations) to provide a more consistent baseline.</p> <p>We also provided feedback that the company should look to consolidate its various ESG reporting documents into a single report. The existing format makes it challenging for users to find relevant information.</p> <p>The engagement allowed us to share our view on ESG disclosure and suggest additional transparency in several areas. Namely, we recommended the company enhance its disclosure on cybersecurity matters (e.g., management oversight and information on preventative measures undertaken by the company).</p>

<sup>1</sup> Scope 1: direct emissions from owned or controlled sources; scope 2: indirect emissions from the generation of purchased electricity, steam, or cooling; scope 3: all other indirect emissions.

Unless otherwise noted, data were provided by the company during the engagement or are available through company reports.

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

**Banca Transilvania (4<sup>th</sup> Quarter 2024 Engagement)**

<b>Focus</b>	Environment, Governance
<b>Company Description</b>	Banca Transilvania is a large Romanian bank.
<b>Engagement Objective</b>	We engaged with Banca Transilvania to discuss various ESG issues (e.g., climate strategy, sustainable financing framework, appetite for blue bond issuance, and compensation disclosure).
<b>Participants</b>	<p>From Banca Transilvania: Head of Corporate Governance; Sustainability Representative; Investor Relations Representatives</p> <p>From T. Rowe Price Associates, Inc.: Head of Corporate Governance, EMEA and APAC; Responsible Investing Analyst</p>
<b>Engagement Outcome</b>	<p>We engaged with Banca Transilvania to focus on a range of ESG topics, including climate strategy, sustainable financing framework, demand for blue bonds, and remuneration disclosure. Our meeting followed several earlier engagements over the past 18 months on climate and sustainable financing topics. While Banca Transilvania measures financed emissions, it falls behind best practice in not setting any financed emission reduction targets, and we reiterated several previous asks during our call. We also shared our views on management's remuneration disclosure, which is not aligned with investors' expectations.</p> <p>Banca Transilvania's climate strategy is relatively advanced for the region, having measured financed emissions across the entire loan book (most of its peers have measured 60%–70% of their loan book). However, it lags global leaders in not having any financed emissions reduction targets. We discussed the bank's appetite for target setting for key sectors (i.e., agriculture, transport, and construction) and reiterated our desire to see the bank set these goals.</p> <p>Regarding sustainable finance, management said that the bank is on track to meet its 2023–2025 green financing target, with most of the financing coming from renewable energy, clean transport, green buildings, and water efficiency projects. The bank walked us through its pipeline of eligible assets for blue financing, including loans to small to mid-sized enterprises. We also discussed blue bonds issuance following a EUR 100 million financing loan the bank received from the International Finance Corporation for water-related lending in 2022. Though Banca Transilvania increased water-related lending in 2024, it does not want to issue a blue bond due to its limited size in the portfolio.</p> <p>Regarding governance, Banca Transilvania's remuneration disclosure does not meet investors' expectations for a European company. Following shareholder feedback, the bank plans to disclose the collective key performance indicators (KPIs), the corporate targets shared by the top managers, which we regard as a positive step for the 2025 meeting. However, the bank refused to disclose individual KPIs assigned to top management, citing confidentiality reasons. We pointed out that other European banks disclose individual KPIs in their short- and long-term incentive plans and that investors find this information valuable.</p> <p>The engagement gave us an opportunity to offer our feedback on the bank's climate strategy and remuneration disclosure. We will monitor for Banca Transilvania to set financed emissions reduction targets for key sectors by the end of 2025. We will also monitor for the bank to disclose remuneration-related KPIs.</p>

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## ESG RIIM PROFILE

The T. Rowe Price Responsible Investing Indicator Model (RIIM) rates companies, governments and securitized assets in a traffic light system measuring their environmental, social, and governance profile and flagging issuers with elevated risks. For certain types of investments, including, but not limited to, cash, currency positions, and particular types of derivatives, an ESG analysis may not be relevant or possible due to a lack of data. Where ESG considerations are integrated into the investment research process, we may conclude that other attributes of an investment outweigh ESG considerations when making investment decisions.

	Portfolio		Benchmark	
	No. of securities	% weight	No. of securities	% weight
● Green	141	61.1	1,903	58.7
● Orange	55	25.7	620	22.4
● Red	1	0.5	67	2.0
● Not in scope	0	0.0	6	0.1
● Not covered	29	11.6	626	16.8
● Reserves	1	1.0	0	0.0
<b>Total</b>	<b>227</b>	<b>100.0</b>	<b>3,222</b>	<b>100.0</b>

● No/few Flags ● Medium Flags ● High Flags

The benchmark of the Fund is the ICE BofA Global High Yield Index (hedged to AUD).

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## IMPORTANT INFORMATION

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The Fund's Target Market Determination is available here <https://www.eqt.com.au/corporates-and-fund-managers/fund-managers/institutional-funds/institutional-fund-manager?f=1e68c659-e0db-4d2f-8a96-c436f3d60971>. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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