T. ROWE PRICE FUNDS SICAV

# Dynamic Credit Fund – ESG Report

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

*As of 31 December 2024*

## ESG APPROACH

- The Dynamic Credit Fund uses ESG integration as part of its investment process. By incorporating environmental, social, and governance (ESG) considerations into our investment process, we seek to understand the range of ESG risks, together with many other investment criteria, to pursue consistent, strong long-term returns for our clients.
- 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 portfolio is constructed on the basis of identifying the best risk/reward opportunities from the global fixed income universe. Key to this is proprietary bottom-up research that includes the assessment of ESG factors by our analysts who work in collaboration with the dedicated ESG specialist team. We complement this approach with regular screening of the portfolio using T. Rowe Price's proprietary RIIM analysis. This helps us understand the ESG characteristics of the portfolio and makes us aware of any elevated exposures to specific ESG factors from a risk management perspective. ESG considerations are integrated into our risk monitoring through RIIM that systematically and proactively collects information on environmental and social factors. RIIM helps measure an issuer's ESG profile and flag those with elevated risks. RIIM also helps to identify and prioritize which issues require further fundamental assessment by the Responsible Investing team. It rates issuers using a "traffic light" system. Issuers flagging red or orange undergo further analysis by the RI team and their findings are shared with the analyst for incorporation into the investment process.
- The fund is classified as Article 8 according to the Sustainable Finance Disclosure Regulation. Although the fund does not have sustainable investment as an objective, the promotion of environmental and social characteristics is achieved through the fund's commitment to maintain at least 10% of the value of its portfolio invested in Sustainable Investments. The fund avoids issuers whose activities we may consider harmful to the environment and/or society through the application of our proprietary screen, the T. Rowe Price Responsible Exclusion List.

**INVESTMENT OBJECTIVE:** The fund seeks total return through a combination of income and capital appreciation.

**INVESTMENT PROCESS:** The fund is classified as Article 8 under SFDR (the EU's Sustainable Finance Disclosure Regulation); it promotes, among other characteristics, environmental and/or social characteristics and the companies in which the investments are made follow good governance practices. The fund is actively managed and invests mainly in a diversified portfolio of bonds of all types from issuers around the world, including emerging markets. Although the fund does not have sustainable investment as an objective, the promotion of environmental and/or social characteristics is achieved through the fund's commitment to maintain at least 10% of the value of its portfolio invested in sustainable investments, as defined by the SFDR. In addition to the E/S characteristics promoted, the fund also applies the investment manager's proprietary responsible screen (the T. Rowe Price Responsible Exclusion List). The fund may use derivatives for hedging, efficient portfolio management and investment purposes. The fund may also use derivatives to create synthetic short positions in currencies, debt securities, credit indices and equities. For full investment objective and policy details refer to the prospectus. The manager is not constrained by the fund's benchmark, which is used for performance comparison purposes only.

## 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.

## Kroger (2nd Quarter 2024 Engagement)

| | |
|---|---|
| **Focus** | Environment |
| **Company Description** | Kroger is a large U.S. supermarket chain. |
| **Engagement Objective** | We engaged with Kroger on protein diversification. |
| **Participants** | From Kroger: Senior Director, Sustainability and Social Impact; Head of Sustainability; Senior Innovation Manager; Natural and Organics Strategy and Innovation Manager<br><br>From T. Rowe Price Associates, Inc.: Responsible Investing Analyst |
| **Engagement Outcome** | We participated in a collaborative engagement with other investors, through the Farm Animal Investment Risk and Return (FAIRR) Initiative, to discuss Kroger's approach to protein diversification and to provide feedback on best practice.<br><br>**Greenhouse gas (GHG) emissions/reduction targets**<br>Kroger does not currently disclose its full Scope 3[1] emissions. We provided feedback that this is best Practice. The company stated that it had completed its first full Scope 3 emissions baseline and was also reviewing its targets to ensure they align with the Science Based Targets initiative (SBTi) requirements. We discussed the role of protein diversification in reducing Scope 3 emissions, and Kroger stated that it was currently reviewing the biggest levers for impacting Scope 3 emissions while it thought about setting targets.<br><br>**Lobbying activities (environmental)**<br>We discussed Kroger's direct and indirect lobbying activities. As it engages with policymakers on a state-by-state<br>basis, there can be occasions where the lobbying association's views diverge from the company. However, it stated that it does not intentionally join associations that advocate for anti-climate lobbying. We provided an example that we believe offers best-in-class disclosure on this topic.<br><br>**Product sustainability**<br>Kroger does not have an internal plant-based sales target and stated that it does not plan to set a numeric goal for its portfolio. However, it had been working to promote its plant-based products by working to make them more affordable and/or making them healthier. We provided feedback that more disclosure on this area would be useful.<br><br>The engagement allowed us the opportunity to provide feedback on best-in-class disclosure relating to protein diversification. This included more disclosure on how Kroger integrates health and nutrition into reformulating its plant-based portfolio, scenario analysis on its animal agricultural supply chain, and more disclosure on its direct and indirect advocacy efforts. We asked the company to disclose its full Scope 3 emissions inventory, and we will monitor for this. We will also monitor for Kroger publishing SBTi-validated emissions targets. |

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

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

## CVS Health (4th Quarter 2024 Engagement)

| | |
|---|---|
| **Focus** | Environment, Social |
| **Company Description** | CVS Health provides health care and retail pharmacy services. |
| **Engagement Objective** | We engaged with CVS Health on cybersecurity; health equity; and ESG disclosure. |
| **Participants** | From CVS Health: Senior Vice President (SVP), Chief Sustainability Officer; SVP, Chief Governance Officer, Corporate Secretary & Assistant General Counsel; VP, Compensation & Workforce Analytics; Executive Director, Investor Relations<br><br>From T. Rowe Price Associates, Inc.: Head of Corporate Governance; Responsible Investing Analyst |
| **Engagement Outcome** | 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.<br><br>**Cybersecurity**<br><br>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.<br><br>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.<br><br>**Health equity**<br><br>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.<br><br>**ESG disclosure**<br><br>CVS Health's Scope 3[1] 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.<br><br>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.<br><br>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). |

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

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 SICAV sub-fund, and no assumption should be made that the securities identified and discussed were or will be profitable.

## 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 | 50 | 36.9 | 0 | 0.0 |
| Orange | 33 | 24.0 | 0 | 0.0 |
| Red | 3 | 2.3 | 0 | 0.0 |
| Not in scope | 41 | 9.0 | 0 | 0.0 |
| Not covered | 9 | 5.3 | 0 | 0.0 |
| Reserves | 1 | 22.6 | 0 | 0.0 |
| **Total** | **137** | **100.0** | **0** | **0.0** |

No/few Flags  Medium Flags  High Flags

The comparator benchmark of the Fund is the ICE BofA US 3-Month Treasury Bill Index . The manager is not constrained by the fund's benchmark, which is used for performance comparison purposes only.

## SUSTAINABILITY INDICATOR

The fund is classified as Article 8 according to the Sustainable Finance Disclosure Regulations (SFDR).

The sustainability indicator used by the fund is a minimum of 10% of the value of the fund’s portfolio held in securities that the investment manager identifies as sustainable investments.

The percentage exposure of the fund to sustainable investments is:

| | Target Minimum Commitment % | Fund Exposure % |
|---|---|---|
| Sustainable Investments | 10.0 | 14.4 |
| with Environmental Objectives | 0.5 | 3.3 |
| with Social Objectives | 0.5 | 11.1 |

## PRINCIPAL ADVERSE IMPACT (PAI) INDICATORS

Under the European Union Sustainable Finance Disclosure Regulations (SFDR), investment managers are required to take into account Principal Adverse Impact (PAI) indicators, a set of metrics that highlight the potential negative impacts on sustainability factors that result from investment decisions. This is integrated into our ESG analysis at a security level.

Some PAI indicators have limited data availability which may lead to misrepresentative values for the fund. In these cases, the metric vale and data coverage are displayed as n/a in the following tables.

In addition, the investment manager considers the following PAI indicators at an aggregate fund level. Metric values are shown in the Base Currency of the fund (USD):

| PAI Indicator | Metric Description | Unit of Measurement | Metric Value | Metric Coverage (%) |
|---|---|---|---|---|
| 10. Violations of UNGC principles and OECD guidelines for Multinational Enterprises | Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises | Percentage of total invested | 0.0% | 54.9% |
| 13. Board gender diversity | Average ratio of female to male board members in investee companies, expressed as a percentage of board members | Average ratio of female board members | 11.2% | 42.0% |
| 14. Exposure to controversial weapons | Share of investments in investee companies involved in the manufacture or selling of controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) | Percentage of total invested | 0.0% | 46.4% |

## GLOSSARY OF TERMS

**Metric coverage -** The percentage of the portfolio for which PAI data is available
**GHG** - Greenhouse gas emissions
**Scope 1 GHG emissions** - Direct greenhouse gas emissions by the fund
**Scope 2 GHG emissions** - Indirect greenhouse gas emissions made by the fund
**Scope 3 GHG emissions** - All other indirect emissions that occur in the funds value chain
**mt$CO_2$e** - Metric tonnes of carbon dioxide equivalent
**Carbon footprint (Scope 1,2 & 3 emissions)** - The total greenhouse gas emissions per million invested in the fund
**GWh** - Gigawatt Hours
**Ktons** - Kilotonnes
**UNGC** - The United Nations Global Compact
**OECD** - The Organization for Economic Co-operation and Development
**No data** - no data is available or can be calculated for the indicator

**RISKS - The following risks are materially relevant to the fund (refer to prospectus for further details):** ABS and MBS - Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS) may be subject to greater liquidity, credit, default and interest rate risk compared to other bonds. They are often exposed to extension and prepayment risk. Contingent convertible bond - Contingent Convertible Bonds may be subject to additional risks linked to: capital structure inversion, trigger levels, coupon cancellations, call extensions, yield/valuation, conversions, write downs, industry concentration and liquidity, among others. Country (China) - Chinese investments may be subject to higher levels of risks such as liquidity, currency, regulatory and legal risks due to the structure of the local market. Credit - Credit risk arises when an issuer's financial health deteriorates and/or it fails to fulfill its financial obligations to the fund. Currency - Currency exchange rate movements could reduce investment gains or increase investment losses. Default - Default risk may occur if the issuers of certain bonds become unable or unwilling to make payments on their bonds. Derivative - Derivatives may be used to create leverage which could expose the fund to higher volatility and/or losses that are significantly greater than the cost of the derivative. Distressed or defaulted debt securities - Distressed or defaulted debt securities may bear substantially higher degree of risks linked to recovery, liquidity and valuation. Emerging markets - Emerging markets are less established than developed markets and therefore involve higher risks. Frontier markets - Frontier markets are less mature than emerging markets and typically have higher risks, including limited investability and liquidity. High yield bond - High yield debt securities are generally subject to greater risk of issuer debt restructuring or default, higher liquidity risk and greater sensitivity to market conditions. Interest rate - Interest rate risk is the potential for losses in fixed-income investments as a result of unexpected changes in interest rates. Issuer concentration - Issuer concentration risk may result in performance being more strongly affected by any business, industry, economic, financial or market conditions affecting those issuers in which the fund's assets are concentrated. Liquidity - Liquidity risk may result in securities becoming hard to value or trade within a desired timeframe at a fair price. Prepayment and extension - Mortgage- and asset-backed securities could increase the fund's sensitivity to unexpected changes in interest rates. Sector concentration - Sector concentration risk may result in performance being more strongly affected by any business, industry, economic, financial or market conditions affecting a particular sector in which the fund's assets are concentrated. Total Return Swap - Total return swap contracts may expose the fund to additional risks, including market, counterparty and operational risks as well as risks linked to the use of collateral arrangements.

**General fund risks - to be read in conjunction with the fund specific risks above.** Counterparty - Counterparty risk may materialise if an entity with which the fund does business becomes unwilling or unable to meet its obligations to the fund. ESG and sustainability - ESG and Sustainability risk may result in a material negative impact on the value of an investment and performance of the fund. Geographic concentration - Geographic concentration risk may result in performance being more strongly affected by any social, political, economic, environmental or market conditions affecting those countries or regions in which the fund's assets are concentrated. Hedging - Hedging measures involve costs and may work imperfectly, may not be feasible at times, or may fail completely. Investment fund - Investing in funds involves certain risks an investor would not face if investing in markets directly. Management - Management risk may result in potential conflicts of interest relating to the obligations of the investment manager. Market - Market risk may subject the fund to experience losses caused by unexpected changes in a wide variety of factors. Operational - Operational risk may cause losses as a result of incidents caused by people, systems, and/or processes.

## ADDITIONAL DISCLOSURES



Holdings-based analytics are calculated using T. Rowe Price's internal Investment Book of Records (IBOR). Due to timing and accounting methodology differences, IBOR data may differ from the Accounting Book of Records (ABOR) data provided by the Fund’s accountant.

## IMPORTANT INFORMATION

The Funds are sub-funds of the T. Rowe Price Funds SICAV, a Luxembourg investment company with variable capital which is registered with Commission de Surveillance du Secteur Financier and which qualifies as an undertaking for collective investment in transferable securities ("UCITS"). Full details of the objectives, investment policies and risks are located in the prospectus which is available with the key investor information documents (KIID) and/or key information document (KID) in English and in an official language of the jurisdictions in which the Funds are registered for public sale, together with the articles of incorporation and the annual and semi-annual reports (together "Fund Documents"). Any decision to invest should be made on the basis of the Fund Documents which are available free of charge from the local representative, local information/paying agent or from authorised distributors. They can also be found along with a summary of investor rights in English at www.troweprice.com. The Management Company reserves the right to terminate marketing arrangements.

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