



FIXED INCOME IMPACT INVESTING

DISPELLING COMMON MYTHS

Michael Ganske – Portfolio Specialist
16 February 2023

Agenda

Why impact investing?

Myth 1: *Impact can only be achieved in private markets*

Myth 2: *Only ESG-labelled bonds can create a positive impact*

Myth 3: *Achieving impact requires an overhaul in the investment / portfolio construction process*

Global Impact Credit approach

In Summary

Why Impact Investing?



What we believe:



Social
challenges &
inequality
cannot be ignored



Fierce climate
change
cannot be ignored



Capital
can do more than
just create alpha

Truths vs Myths: Setting the Record Straight

Myth 1

“Impact can only be achieved in private markets”



Myth 2

“Only ESG-labelled bonds can create a positive impact”

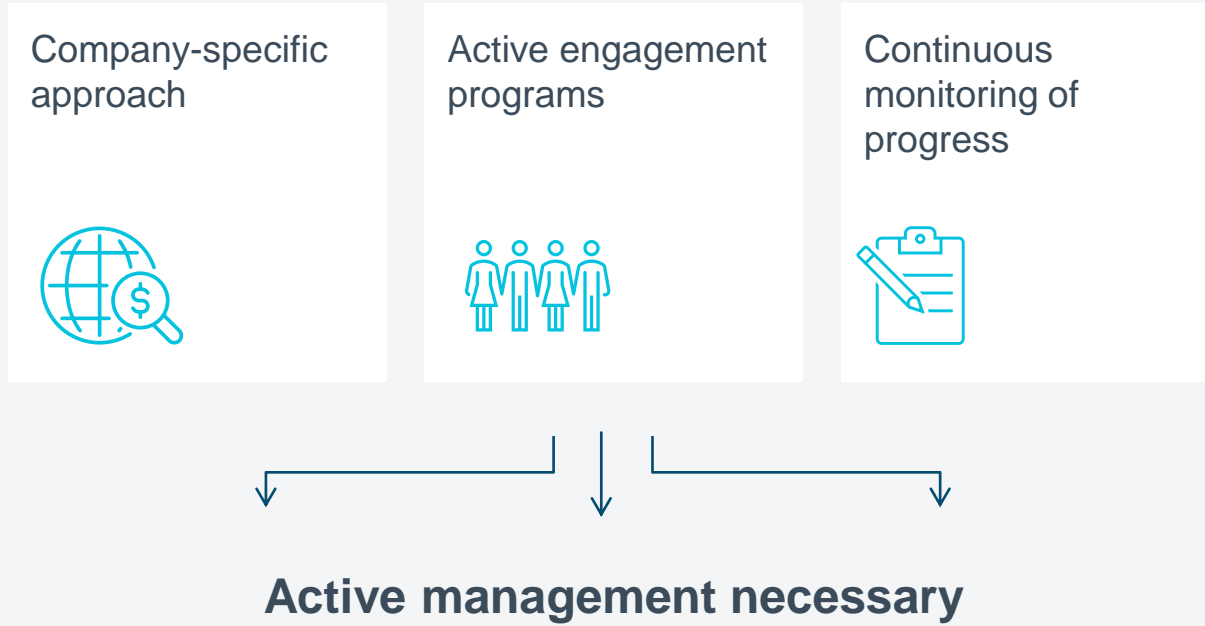


Myth 3

“Achieving impact requires an overhaul in the investment/ portfolio construction process”



Can you make an impact in the public market?



Intentionality

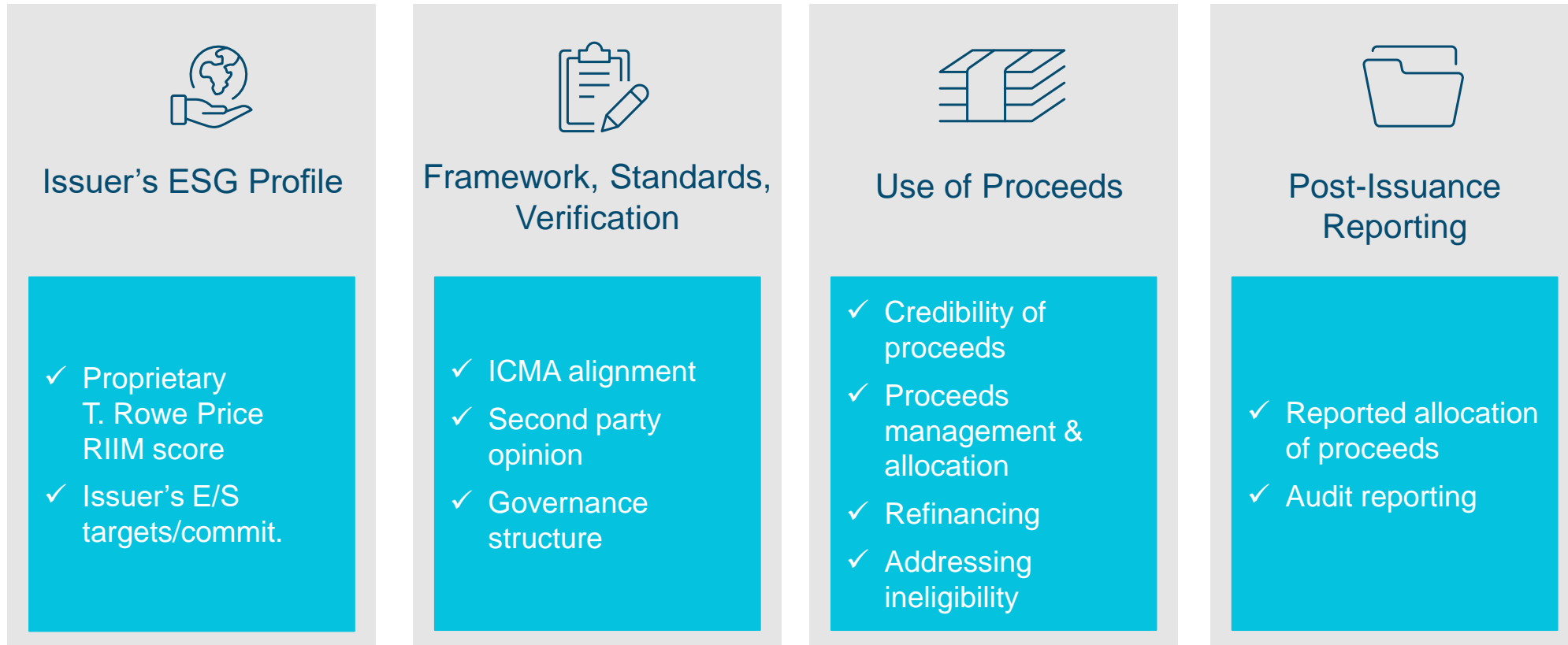
Additionality

Measurement

Resilience

Evaluating ESG Labelled Bonds

We utilize a proprietary framework for assessing the credibility of credit, securitized, and sovereign ESG-labelled bonds



Our ESG bond model: guards against greenwashing + identifies high impact projects

Responsible Investing Indicator Model (RIIM) is a proprietary tool developed to enhance research and aid better decision making. RIIM rates companies in a traffic light system measuring their environmental, social and governance profile and flagging companies with elevated risks (Green=No/Few Flags, Orange=Medium Flags, Red=High Flags).

Impact screening helps to ensure materiality and measurability

Our measurable inclusion criteria...

1) Majority of current

Revenues or profits tied to at least one impact sub-pillar

2) Majority of projected

Revenues or profits in 10 years tied to at least one impact sub-pillar

3) Use of proceeds

The capital is allocated to projects tied to at least one impact sub-pillar

Areas that do not generate positive impact are actively excluded

- Adult entertainment
- Alcohol
- Assault-style weapons
- Conduct-based
- Controversial weapons
- Conventional weapons
- For-profit prisons
- Fossil fuels¹
- Gaming (gambling) / casinos
- Tobacco



¹ Fossil fuel exclusion has the potential to adapt over time as companies with exposure to fossil fuel production demonstrate a clear path to energy transition with substantive reporting and targets. Fossil fuel companies defined as those that generate >5% of revenues from the production of thermal coal and companies that are identified within the Oil or Gas industry through the GICS and/or BICS classification.

Impact can, and should, go beyond ESG-labelled bonds

1
Myth 1

2
Myth 2

3
Myth 3



Portfolio Construction

- High corporate sector concentration
- Systemic risk



'Greenwashing'

- ICMA¹ provides guidance but compliance voluntary, self-reported
- Look beyond the label



Relative Value

- Pricing vs general obligation bonds
- Strength of sustainable finance framework

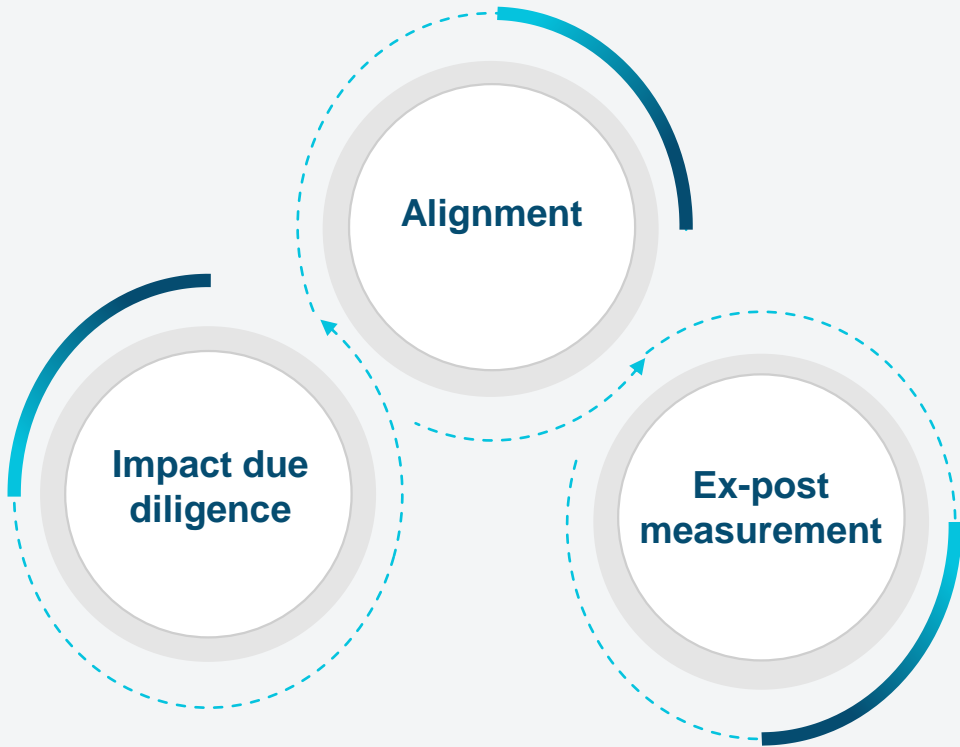


Opportunity Cost

- Large universe of issuers whose activities generate positive impact

¹ International Capital Market Association.

How do you qualify a non-labelled bond as impact?



Alignment

- Aligning all investments to a framework such as the UN's SDGs¹ or proprietary impact pillars, guides prudent impact decision making

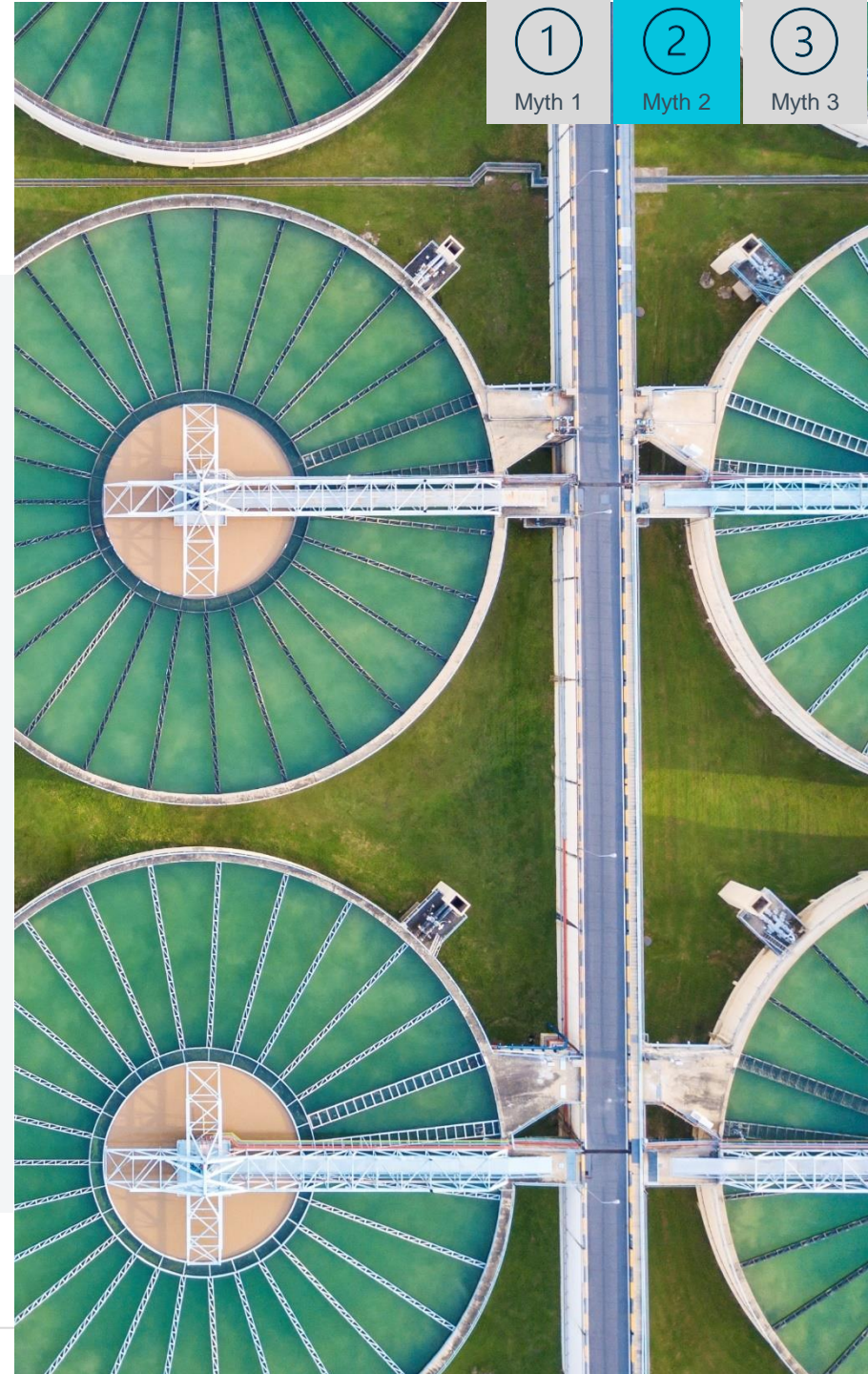
Impact due diligence

- **Five dimensions of impact**, and fundamental analysis help identify impact opportunities

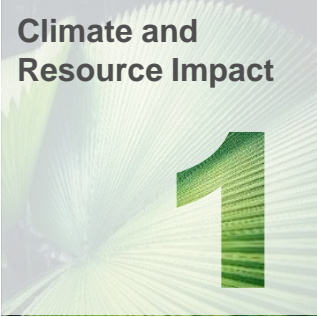








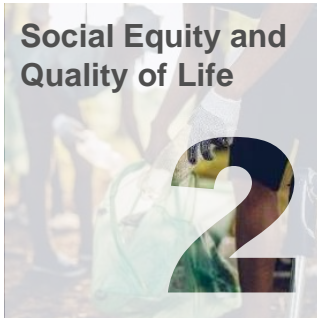


















Importance of ex-post measurement

- Monitoring progression of impact KPIs

¹United Nation's Sustainable Development Goals



Impact Investment Pillars Guide Our Decision-Making

Impact Pillars	Sub-Pillars	Sub-Pillar Activities	UN SDG Alignment
Climate and Resource Impact 	1. Reducing greenhouse gases (GHGs)	Increasing energy efficiency Decarbonization and carbon capture Reducing methane and other GHGs Financing activities	   
	2. Promoting healthy ecosystems	Protecting air quality, land use, freshwater & oceans Sustainable agriculture Sustainable aquaculture	  
	3. Nurturing circular economies	Reducing waste Recycling Enabling efficient consumption	
Social Equity and Quality of Life 	4. Enabling social equity	Education & job training Financial inclusion, Reducing discrimination Digital connections Meeting basic needs / affordable housing Consumption at the bottom-of-the-pyramid	      
	5. Improving health	Providing health care solutions Improving nutrition & food quality Companion & animal health	 
	6. Enhancing quality of life	Promoting mental & physical fitness Protection solutions Personal & worker safety solutions, Safer mobility	  
Sustainable Innovation and Productivity 	7. Sustainable technology	Innovative software & technology Innovation growth & smart infrastructure	 
	8. Building sustainable industry and infrastructure	Enabling enterprise growth Improving industrial processes	  

Source: T. Rowe Price uses a proprietary custom structure for impact pillar and sub-pillar classification.

Impact screening defines the investment universe



It doesn't require an overhaul of traditional portfolio construction



Non-labelled bond example Impact Analysis in Practice — NextEra Energy Partners

As of 31 December 2021

Impact Thesis

NextEra is one of the largest owners of renewable energy projects in the U.S. 100% of its power comes from clean/renewable resources which will accelerate global decarbonization by supporting the shift in energy production away from fossil fuels and towards low carbon alternatives.

KPIs:

Total installed capacity (MW) from renewable sources

Energy generated (MWh) from renewable sources

Fundamentals – Five Dimensions of Impact

What?

Reduction of greenhouse gas (GHG) emissions from the generation of renewable energy.

Who?

Our planet, municipalities, and people.

How much?¹

In 2020, 5,730 MW of renewable power assets generated over 18.6 million MWh of electricity and helped avoid over 9.7 million tons of CO₂ emissions.

Clean energy generation increased by 9% relative to 2019.

Contribution

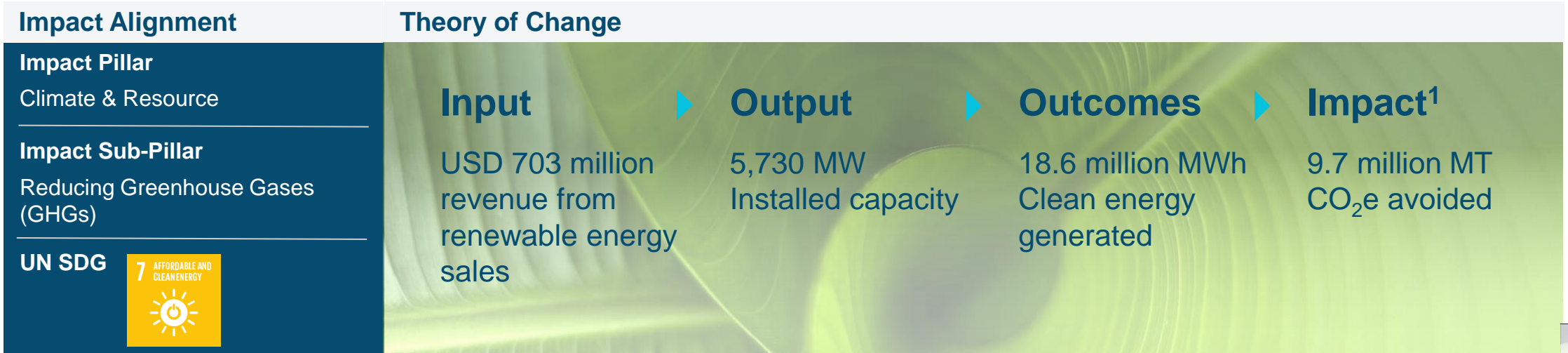
NextEra increased its renewable asset portfolio by 2,530 MW in 2021.

Increasing investment in renewable energy generation will provide clean energy at a lower cost for individuals across the U.S.

Risks

They own and manage interest in natural gas pipeline assets, totaling 4.3 billion cubic feet of capacity and comprising 23% of company revenue.

Natural gas pipelines can adversely affect the environment through habitat loss, sedimentation, and air emissions.



¹NextEra Energy Partners company report (February 2022)

The specific securities identified and described are for informational purposes only and do not represent recommendations.



Labelled bond example Impact Analysis in Practice — Rhino Bond

As of 31 December 2022

Impact Thesis

The World Bank’s Wildlife Conservation Bond (Rhino Bond) is a sustainable development bond. The bond directly channels funds to conservation outcomes, specifically by targeting black rhino populations in South Africa. The primary impact focuses on improving biodiversity, with a secondary impact directed to improved education and job training,

KPIs:

Rhino Abundance, Rhino population growth rate, Conservation investment payments, Local community employed.

Impact Alignment

Impact Pillar

Climate & Resource Impact

Impact Sub-Pillar

Promoting Healthy Ecosystems

Primary UN SDG

Life on Land



Fundamentals – Five Dimensions of Impact

What?

Proceeds will be used to help drive the black rhino growth rate in the Addo Elephant National Park and the Great Fish River Nature Reserve in South Africa.

Who?

Planet: protect biodiversity and support improvements in planetary health.
People: create conversation jobs for the local population.

How much?

The proceeds will help boost the 466 black rhino population in the two parks, which currently represents 22% of the world’s black rhino numbers.

The conservation areas the bond finances represents 1,530km² of high biodiversity.

Contribution

Investment in the bond will help secure the current population of rhinos and encourage further population growth.

The bond structure has the scope to be rolled out to other geographies and endangered species.

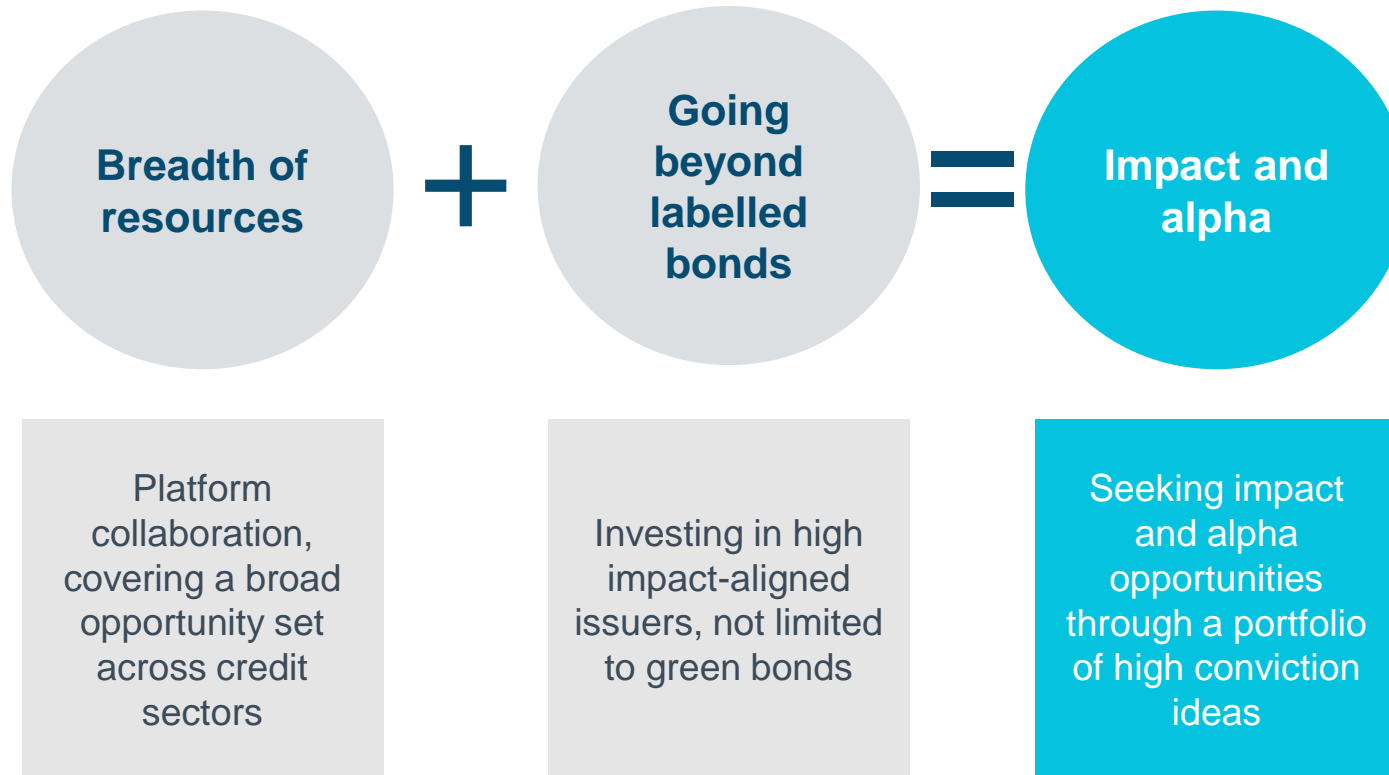
Risks

Risk 1: Poaching is a very high risk to the population of black rhinos.
Risk 2: Socio-political factors could adversely impact the parks and population growth.
Risk 3: Factors associated with monitoring, calculating and verifying the population growth rate could adversely impact the conservation success.

The specific securities identified and described are for informational purposes only and do not represent recommendations.



A Global Impact Credit approach



Impact investing is a natural extension of ESG investing – **simple, not easy**

In Summary

Impact investing can be applied to **both** public & private markets



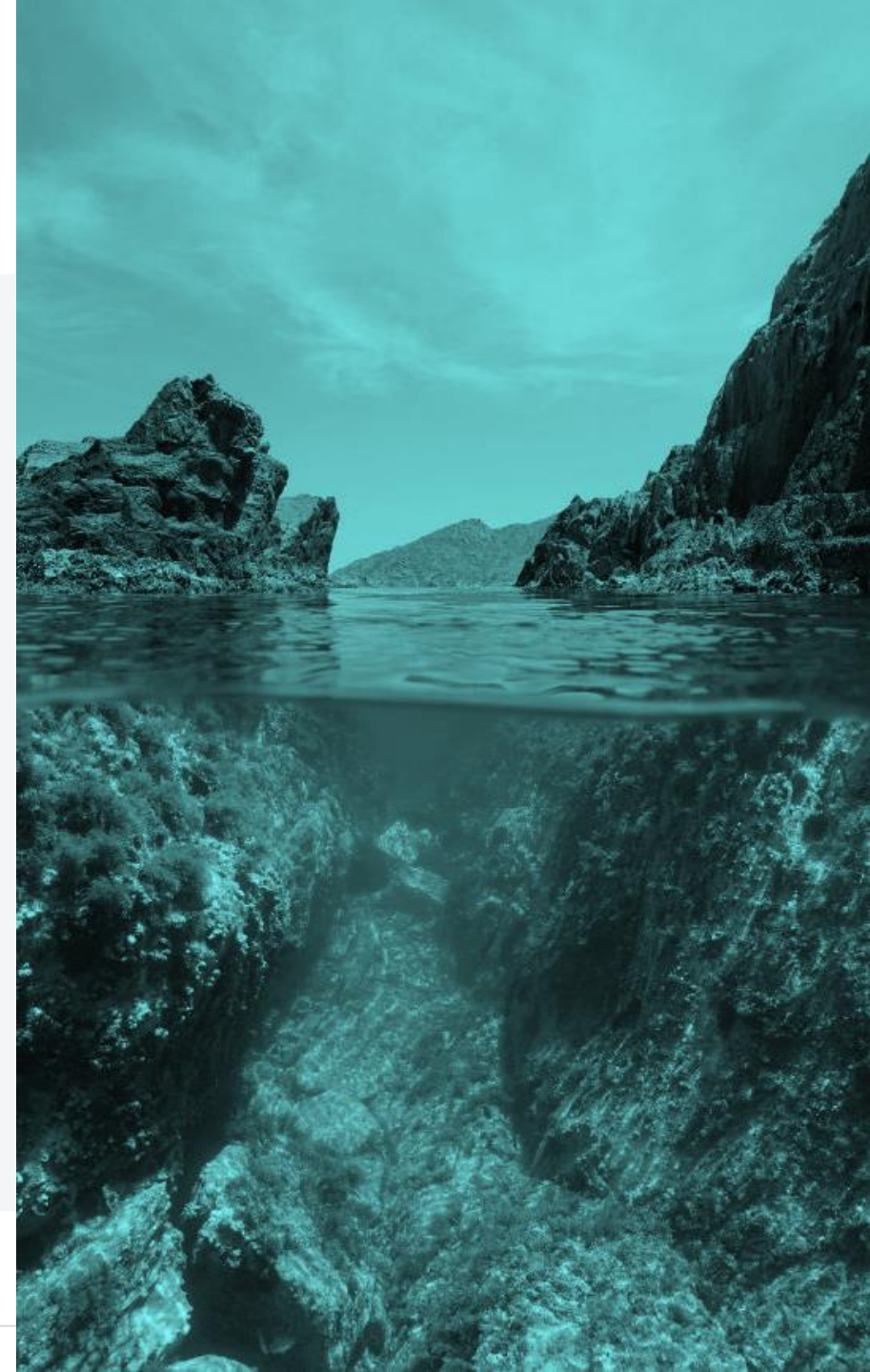
Impact can, and **should**, go beyond ESG-labelled bonds



Bottom-up & top-down analysis informs impact investments



Impact
&
Alpha



Impact Annual Report



Social Equity and Quality of Life and Sustainable Innovation and Productivity



225,342
Jobs created
EQUIVALENT TO MORE THAN THE POPULATION OF SAMOA

Bank Rakyat Indonesia, Mercantil-Bra, Citibank



960 million
Patients treated
EQUIVALENT TO MORE THAN THE POPULATION OF THE U.S., INDONESIA, MEXICO, BRAZIL, AND JAPAN COMBINED

Pfizer, Novartis, Mount Sinai Hospitals, Eli Lilly, CVS Health, European Investment Bank¹



604 billion
USD in loans to small and medium-sized enterprises

Shinhan Bank, Credit Agricole, Cooperatieve Rabobank, BPCE, BBVA, Bancamer, Kiekkoribank, Bangkok Bank



750 million
USD in loans to underserved communities and credit-insecure areas

OneMain



22,704
Affordable housing units built and financed

Trust Financial, LEG Immobilien



78.4 million
People medically insured
EQUIVALENT TO MORE THAN THE POPULATION OF THAILAND

Kaiser Foundation Hospitals, Humana, Health Care Services, Molina Healthcare, Centene



111 billion
USD of research and development revenue focused on improving health

AstraZeneca, Avantor, Boston Dickinson, Danaher, Organon, Pfizer/Sepracor, STERIS, Thermo Fisher Scientific

Sustainability With SubstanceSM



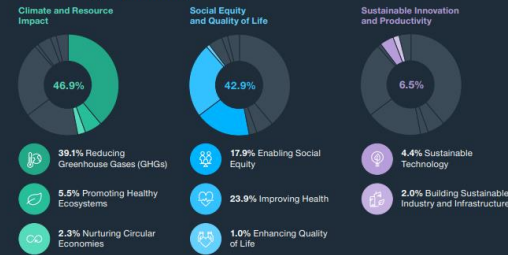
Issued August 2022.
FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

For illustrative purposes only. The impact outcomes provided here can be susceptible to potential inaccuracies due to lack of precise information. Companies do not measure or report in a consistent or uniform way. Where information is not available, we have not included a company's contribution within the impact outcome. This means that these estimates may actually be conservative, but as companies get better at measuring impact, we expect these data points to become more precise. Individual company results may vary significantly and may not achieve the same level of impact in the future. See Additional Disclosures for more details on the representative portfolio.
CO₂ or carbon dioxide equivalent or CO₂ equivalent. This metric is used to compare the emissions from various greenhouse gases on the basis of their global warming potential, by converting amounts of other gases to the equivalent amount of carbon dioxide with the same global warming potential. Source: Sustainif.
¹ Assuming an average utility scale wind turbine with a 3 megawatt generation capacity.
² Estimate based on United States EPA Greenhouse Gas Equivalencies Calculator.
³ 2020 data.

INVEST WITH CONFIDENCE | 14

Portfolio Positioning

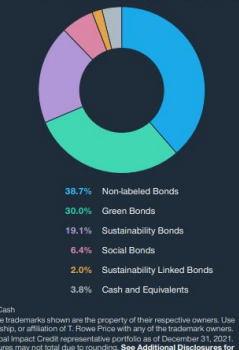
Portfolio by Impact Sub-pillar*



Portfolio by Primary UN SDGs*



Portfolio by Bond Classification



*Balance of allocation (0.8%) is held in Cash
Source for images: United Nations. The trademarks shown are the property of their respective owners. Use does not imply endorsement, sponsorship, or affiliation of T. Rowe Price with any of the trademark owners. Data shown for the T. Rowe Price Global Impact Credit representative portfolio as of December 31, 2021. Subject to change without notice. Figures may not total due to rounding. See Additional Disclosures for more details on the representative portfolio.

INVEST WITH CONFIDENCE | 08

PROMOTING HEALTHY ECOSYSTEMS Xylem

Pressure Points

Roughly 2 billion people around the world lack safely managed drinking water.¹ Moreover, population growth and disruptive weather patterns from climate change will lead to water shortages and water quality degradation. Addressing issues of water shortage, water deterioration, and aging infrastructure will require significant investment and innovation.²

Impact Thesis

Xylem is a leading global water technology company that manufactures equipment for the movement, treatment, and testing of water. This addresses the urgent global challenge of responsible stewardship of society's shared water resources. The company's solutions enable access to clean drinking water, contribute to water conservation, and drive decarbonization through efficient water consumption, recycling of water, and energy savings. Green bond proceeds have financed projects that will improve water security through technological advancements, enable the supply of high-quality drinking water, and reduce water loss.

KPI: Volume of water treated for reuse (cubic meters), non-revenue water saved (cubic meters), metric tons of CO₂ saved per year

Five Dimensions of Impact

What: Optimize water management, enable eco-efficient energy designs, and improve water infrastructure to meet the water needs of populations around the world and drive energy savings.

Who: Our planet, individuals, utilities, and other sectors availing of water infrastructure.

How much: In 2021, green bond disbursements of USD 492 million treated 1.2 billion cubic meters of water for reuse, saved 250 million cubic meters of non-revenue water, and reduced CO₂ emissions by 0.25 million metric tons.³

Risks: Alignment risk: Businesses often lack strong incentives to promote more efficient and productive use of water because most water supplies are subsidized. Lack of awareness and misaligned incentives may hinder the implementation of water-saving solutions.

Progress Monitoring

We are tracking Xylem's progress toward its 2025 Signature Goals and how the green bonds could help contribute to their achievement.

PRIMARY UN SDG



IMPACT PILLAR

Climate and Resource Impact

IMPACT SUB-PILLAR

Promoting Healthy Ecosystems

IMPACT JOURNEYSM

Input
USD 492 million (net) bond proceeds allocated to eligible green projects

Output
USD 260 million disbursed to eco-efficient water technologies; USD 232 million disbursed to sustainable water management solutions

Outcome
Enhanced water security and energy efficiency for municipalities and communities

Impact
1.2 billion cubic meters of water treated for reuse, 250 million cubic meters of non-revenue water saved, 0.25 million metric tons of CO₂ reduced

¹Morgan Stanley & GWI (February 2022)
²MCPA, Building the Framework of Smart Water System (2019)
³Xylem 2021 Green Bond Impact Report

INVEST WITH CONFIDENCE | 19

Impact Insights

T. ROWE PRICE INSIGHTS ON FIXED INCOME



Evaluating ESG Bonds— What's Behind the Label

Greenwashing risks underpin importance of assessing an ESG bond's credentials.

KEY INSIGHTS

- The market for environmental, social, and governance (ESG)-labeled debt has grown rapidly, a trend we expect to continue as governments and companies step up their efforts to meet climate and social goals.
- A lack of global compulsory standards and criteria for issuing debt with an ESG-related tag leaves investors vulnerable to greenwashing, however.
- To help mitigate this risk, we have built a proprietary framework to evaluate the quality and credentials of an ESG-labeled bond.

The market for debt issued with an environmental, social, and governance (ESG) focus has grown rapidly in recent years to become a significant feature of today's fixed income investing landscape. While we are encouraged to see companies and governments undertaking green and social projects eligible for ESG-labeled bond financing, caution is warranted. This fast-growing, yet still nascent, category has proven vulnerable to greenwashing—where some securities convey a false impression or provide misleading information about the environmental credentials of an organization's products, services, and investments. Furthermore, not all green, social, sustainability, and sustainability-linked bonds are created equal or have adequate safeguards in place to ensure that their proceeds will indeed target sustainable activities. For these reasons, we do not feel that

it is appropriate to just accept a bond as "sustainable" based solely on its label. A robust ESG bond framework is vital, therefore, to help evaluate the credentials of an ESG-labeled bond.

Rapid Growth in ESG-Labeled Issuance Set to Continue

Since the issuance of the first green bond in 2007, the market for sustainable finance has grown considerably and broadened to include social, sustainability, and sustainability-linked bonds. In 2021, for the first time ever, more than USD 1 trillion worth of bonds were sold for the purpose of either financing specific environmental/ social projects (green, social, and sustainability bonds) or for general purposes (sustainability-linked bonds) where the structure is linked to the issuer's achievement of a predefined ESG target.

T. ROWE PRICE INSIGHTS ON GLOBAL FIXED INCOME



Unlocking Impact Outside of ESG-Labeled Debt

Driving real change means investors should look beyond the label.

KEY INSIGHTS

- Although debt with an ESG-related tag gain most of the attention, investing in vanilla, non-labeled bonds can have a greater impact at both societal and financial levels.
- Broadening the opportunity set gives impact investors the chance to back companies making tangible effects while also avoiding paying a premium for labeled bonds.
- Analyzing the depth of impact, as well as implementing ongoing reporting, are keys to fostering long-term change in non-labeled markets.

Environmental, social and governance (ESG) considerations have become a cornerstone of the investing landscape. A bellwether for this has been the rapid growth of debt issued with an ESG-related tag. These include green, social, and sustainability bonds—a range of debt instruments issued to fund projects that seek to have a positive effect on environmental and/ or social issues, such as climate change or social inequality.

Yet, while these instruments have amplified investor interest and increased capital flows toward ESG-conscious companies, they are not the only instrument for investors seeking to make a positive societal impact.

Indeed, assessing companies outside of ESG-labeled bond markets can uncover significant opportunities in terms of delivering both positive impact and financial targets. Not only does this

broaden the opportunity set, supporting companies directly—rather than being limited to funding specific projects—it can also help craft a portfolio that is better aligned with long-term impact goals.

Why ESG Financing Goes Beyond Labels

ESG-labeled debt has become a significant feature of the global bond market in recent years. According to T. Rowe Price analysis, green, social, sustainability, and sustainability-linked issuance eclipsed the USD 1 trillion mark in 2021, compared with just USD 442 billion in 2020. This growth is one of many reasons why public debt markets play an increasingly important role in channeling the investment capital needed to make desired environmental and social impacts, such as those conveyed in the United Nations' Sustainable Development Goals (UN SDG).

T. ROWE PRICE INSIGHTS ON IMPACT INVESTING



Impact Investing in Credit: Debunking Four Common Misconceptions

Increasingly, companies are being measured not only by their earnings and cash flow, but according to the effect their activities have on the environment and society. As a result, credit investors no longer judge those companies solely on their risk and return characteristics, but increasingly by their external impact as well.

So-called impact investing is not a new asset class: it is a natural extension of environmental, social and governance-focused (ESG) investment approaches in credit. The idea is to identify debt issuers on the right side of change—those that are seeking to deliver a

beneficial environmental and social impact, as well as positive financial returns.

Impact investing has grown considerably in the past few years. But a lack of knowledge and several commonly shared misconceptions may discourage investors from considering this way of investing in credit.

In this article, we attempt to debunk four popular myths about impact investing, as well as showing how T. Rowe Price's Global Impact Credit Strategy addresses them.

T. ROWE PRICE INSIGHTS ON GLOBAL FIXED INCOME



Why Impact Investing Needs Public Debt Markets

Their size and diversified nature can foster long-term change.

KEY INSIGHTS

- Impact investing is often closely linked to private markets. However, this ignores the potential that public debt capital can afford investors and issuers.
- The vast size and depth of public markets, on top of greater liquidity, can help asset managers find opportunities that can make a material impact on the United Nations Sustainable Development Goals.
- For issuers, public markets can provide a deeper pool of capital to help fund their day-to-day businesses while helping them meet their long-term impact goals.

Fixed income has traditionally presented a distinct well of opportunity within impact investing, an advancement on environmental, social, and governance (ESG) finance that combines investing with the intention of generating positive and measurable impact in an environmental or social context along

with a positive return. Historically, debt has outperformed equity and real estate by significant margins in terms of investments made and amounts spent in the realm of impact investing. However, attention has typically focused on the private side of debt capital markets.

Impact Investors Are Branching Out Into Public Debt Markets

(Fig. 1) Global corporate ESG issuance in 2021 has already almost doubled last year's figure



As of September 30, 2021. Includes corporate issuance greater than USD 200 million only. Source: Bloomberg Finance L.P. Analysis by T. Rowe Price.

FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

T. ROWE PRICE INSIGHTS ON GLOBAL FIXED INCOME



Global Impact Credit— One Year On

Reflecting on a year of impact investing and what's next.

January 2023

KEY INSIGHTS

- The past year has once again underlined the importance of and need for impact investing.
- We continue to see encouraging developments and innovations in impact investing but also a need for increased regulation to help tackle greenwashing.
- We have been extremely humbled by how open companies are to engagement and, at the same time, energized by how much more there is to learn and do.



With one year having passed since the launch of the strategy, Portfolio Manager, Matt Lawton, answers questions about the evolution of impact investing over the past 12 months, activity within the strategy, successes and challenges, and what he is watching in 2023.

Q. Matt, it's been one year since the strategy's launch, how has impact investing evolved in 2022?

First and foremost, the need for impact investing has palpably increased. In 2022 alone, we have seen record-high temperatures in numerous countries, including the UK; increased severity of hurricanes (ten in Florida); and truly disastrous flooding that has affected almost one-third of Pakistan, with countries such as Australia also affected. Meanwhile, coal consumption and greenhouse gas emissions have risen.

From a regulatory perspective, awareness, challenges, and scrutiny

around greenwashing and maintaining credibility in public impact investing continue to grow. Several asset managers downgraded environmental, social, and governance (ESG) fund classifications, citing uncertainty around more stringent regulatory requirements from the European Union's Sustainable Finance Disclosure Regulation.

In the U.S., we've seen tremendous advancement of sustainability initiatives, most recently through the Inflation Reduction Act. While on the other hand, a number of U.S. states have actually pulled funds from asset managers that simply integrate ESG into their investment process, on the grounds that this means incorporating unwarranted concerns over climate change and that reducing exposure to oil and gas companies can hurt performance. Florida's chief financial officer attributed one divestment to the investment manager having "other goals than producing returns."

FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

INVEST WITH CONFIDENCE® 1



Q&A

THANK YOU

RISKS - T. ROWE PRICE GLOBAL IMPACT CREDIT STRATEGY

Objective

The Global Impact Equity Composite seeks long-term capital growth by seeking positive environmental or social impact and outperforming the benchmark.

Capital risk—The value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

Counterparty risk—An entity with which the portfolio transacts may not meet its obligations to the portfolio.

ESG and sustainability risk—may result in a material negative impact on the value of an investment and performance of the portfolio.

Geographic concentration risk—To the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.

Hedging risk—A portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.

Investment portfolio risk—Investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Management risk—The investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).

Operational risk—Operational failures could lead to disruptions of portfolio operations or financial losses.

Important Information

This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date noted on the material and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

Netherlands – This material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

© 2023 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/ or apart, trademarks of T. Rowe Price Group, Inc.

202202-2724362