



Credit Impact Investing

De-mystifying Common Misconceptions

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Truths vs. Myths

Myth 1

“Impact can only be achieved in private markets”



Myth 2

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



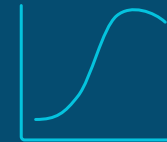
Myth 3

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



Myth 4

“Impact investing implies lower returns”



Can you make an impact in the public market?



Active management necessary



Impact can, and should, go beyond labelled bonds



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

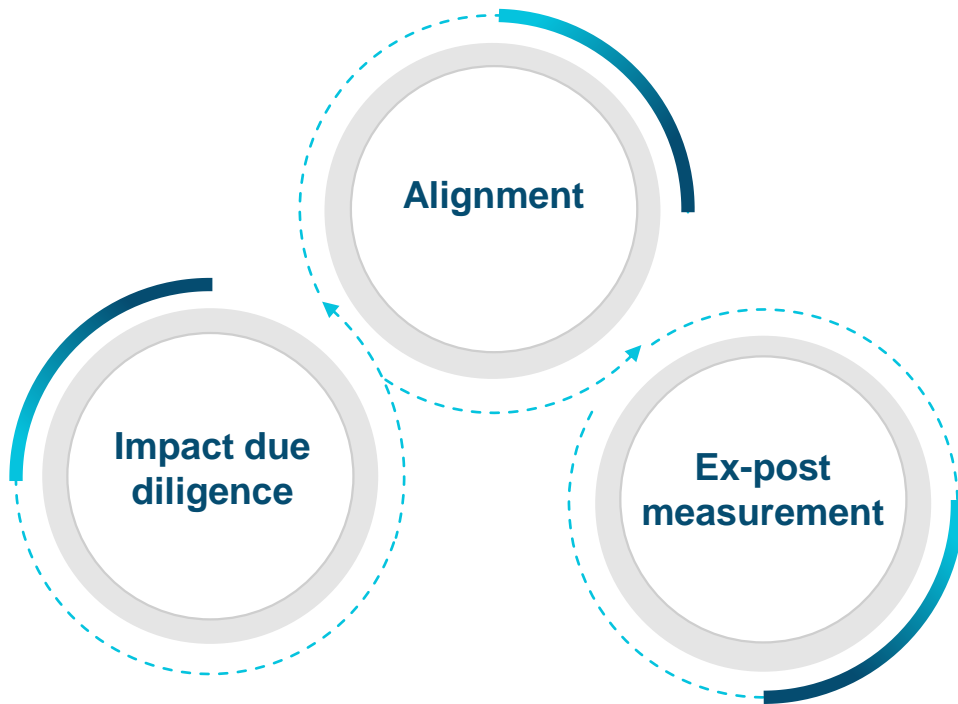


Opportunity Cost

- 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

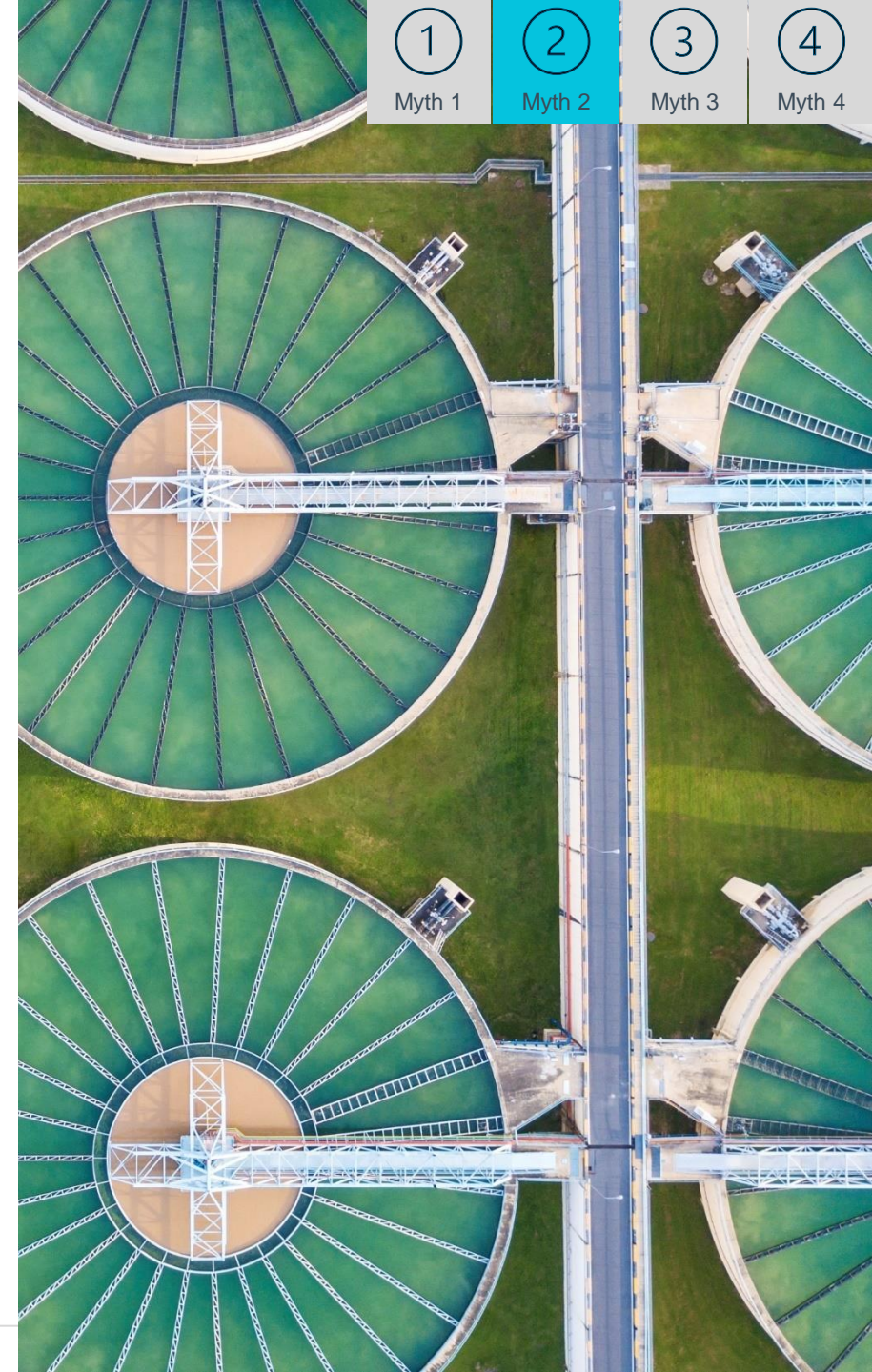
Impact due diligence

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

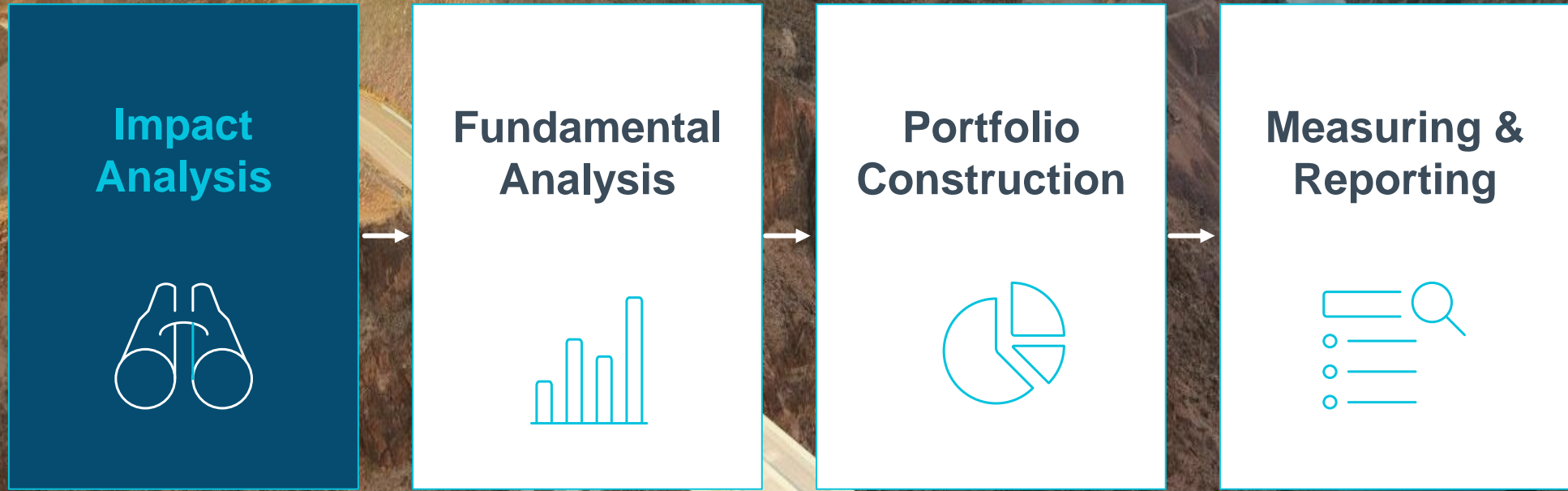
Importance of ex-post measurement

- Monitoring progression of impact KPIs

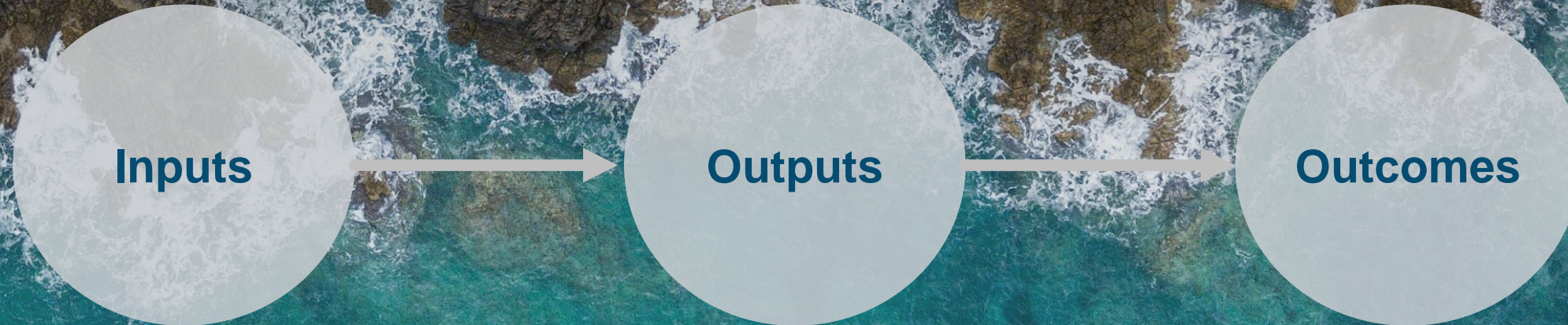
¹ United Nation's Sustainable Development Goals.






Impact screening just defines the investment universe




Relative return factors are the same for impact & mainstream credit portfolios



-  Portfolio construction
-  Investable universe
-  Macro considerations

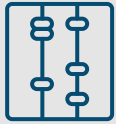
Portfolio attributes across:

- ✓ Duration
- ✓ Diversification
- ✓ Curve
- ✓ Sector
- ✓ Credit quality

-  Targeted risk/return characteristics
-  Relative returns versus benchmark

The Truths

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



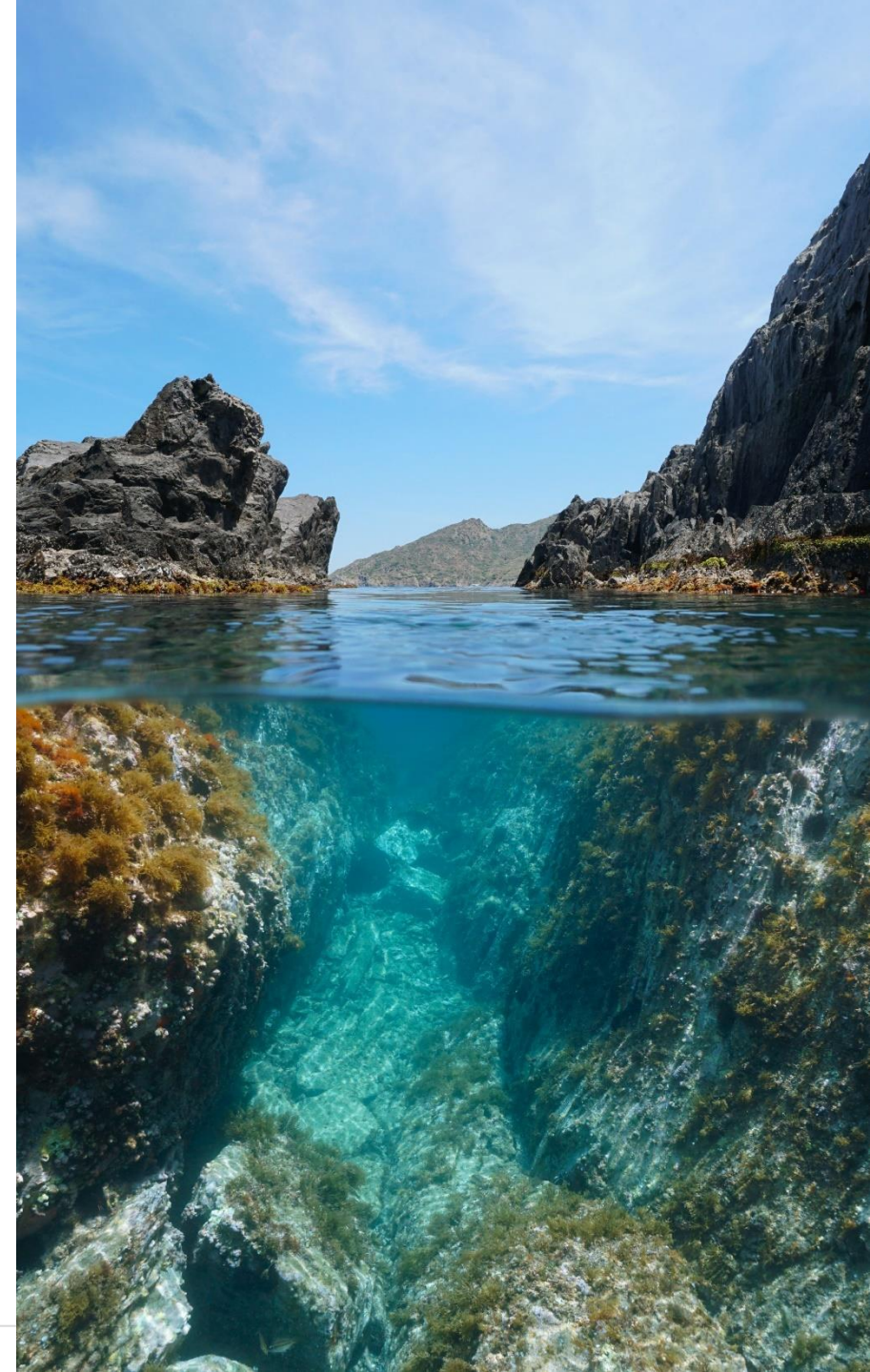
Impact can, and **should**, go beyond ESG-labelled bonds



Bottom-up & top-down analysis informs impact investments



Credit impact portfolios **do not** imply lower returns & should be simply screened as a credit product





Global Impact Credit Strategy



T. Rowe Price Global Impact Investing Objectives:

The Global Impact Credit Strategy seeks:

Material & Measurable Impact



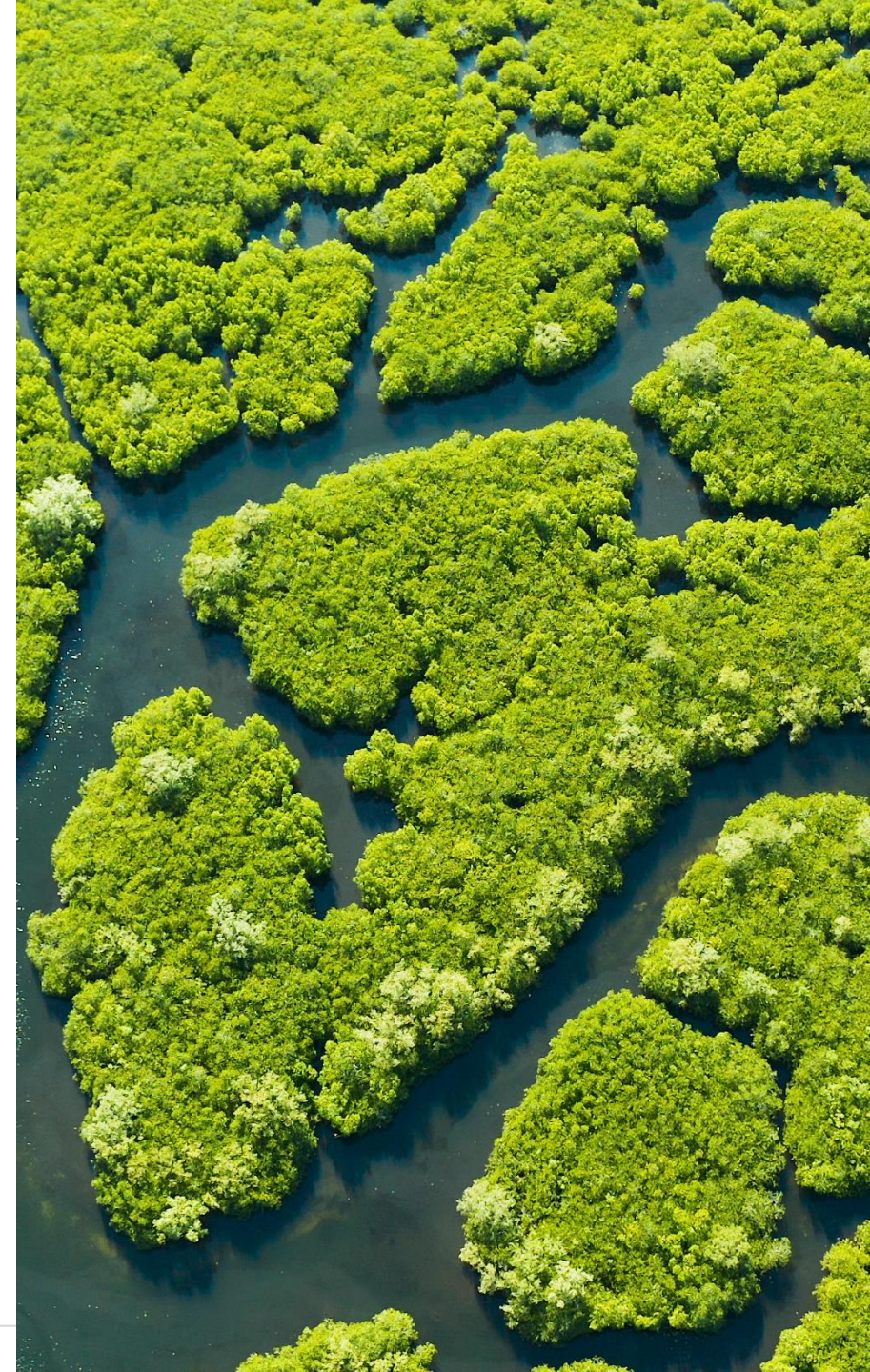
Intentionality & Additionality



Financial Return, Income & Diversification



A dual mandated approach.



Why T. Rowe Price Global Impact Credit?



Depth & Breadth of Resources

- Platform collaboration, covering a broad opportunity set across credit sectors
- Proprietary screening models to identify companies that deliver positive environmental or social impact
- Proprietary frameworks for assessing the credibility of credit, securitized, and sovereign ESG-labelled bonds
- Deep experience and expertise in ESG integration and responsible investing

Cross asset collaboration, combined with proprietary screening models help identify high-impact investments



Committed Impact Research Measurement & Engagement

- Investing in high impact-aligned issuers, not limited to green bonds
- Active engagement programs to promote and progress our impact thesis
- We hold every Impact investment to a high standard and have robust reporting to measure Impact
- Active management with a forward-looking perspective on Impact outcomes

In-depth impact analysis and engagement helps to ensure materiality, measurability, and additionality

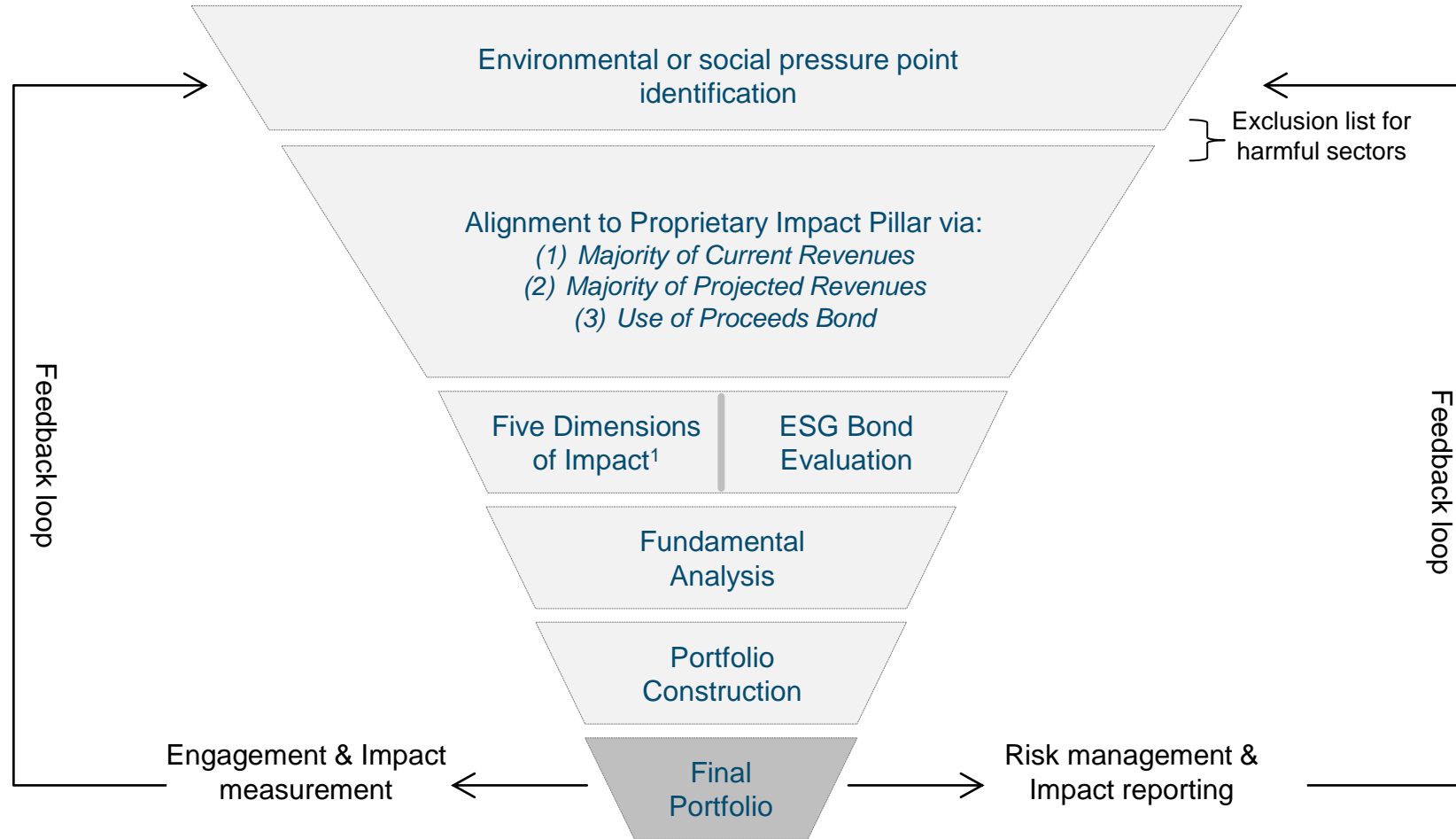


Risk Managed Portfolio Construction

- Diversified portfolio of global credit impact aligned bonds
- Calibrate positions based on conviction level and risk diversification characteristics
- Leveraging our extensive research platform to uncover attractive bottom-up opportunities
- Proprietary credit research process

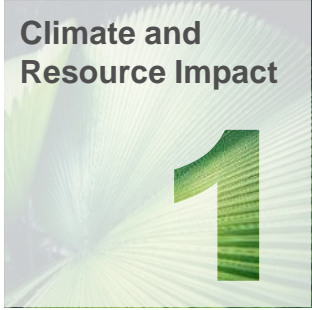


























Risk-aware, portfolio management enables controlled tracking error

A robust and repeatable investment process



A process that can support bespoke impact or financial objectives.

Alignment to Impact Investment Pillars

Impact Pillars	Sub-Pillars	Sub-Pillar Activities	UN SDG Alignment		
Climate and Resource Impact 	1. Reducing greenhouse gases (GHGs)	Increasing energy efficiency Decarbonization, carbon capture, and sequestration 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 Education & job training Financial inclusion			
	4. Enabling social equity	Enabling SMEs Enabling enterprise growth Reducing discrimination Digital connections Meeting basic needs / affordable housing Consumption at the bottom-of-the-pyramid	      		
				5. Improving health	 
				6. Enhancing quality of life	  
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	  		

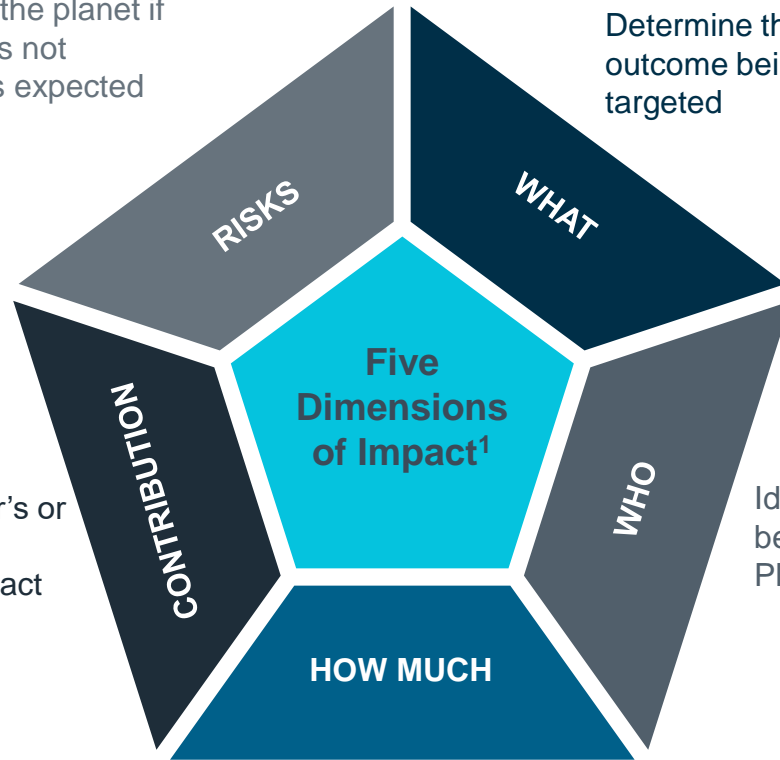
Source: T. Rowe Price uses a proprietary custom structure for impact pillar and sub-pillar classification. <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

Impact Analysis

The Five Dimensions of Impact¹

Evaluate the risks to people and the planet if the impact is not delivered as expected

Determine the impact outcome being targeted



Quantify the issuer's or project's broad contribution to impact

Identify the key beneficiaries (such as the Planet or Society)

Quantify the key performance indicators (scale, depth, and duration)

The Theory of Change

INPUT

Financial, human or material resources the company puts in its business operations

OUTPUT

Products or services which result from the company's business activities

OUTCOME

Short to medium-term effect on stakeholders attributable to a company's products or services

IMPACT

Long-term effect on the planet or society caused by a company's products or services

¹ The Five Dimensions of Impact is a measurement framework developed by the Impact Management Project, an impact practitioner community of over 2,000 organisations. The IMP is a project by Bridges Fund Management Ltd (company number 10401079) ("Bridges").

Impact Analysis in Practice

Rady Children’s Hospital Bond

As of 30 June 2023

Impact Thesis

Rady Children’s Hospital is a non-profit hospital and the largest children’s hospital in California. It is the only pediatric quaternary hospital in San Diego County.

Our investment in Rady Children’s Hospital is a non-labelled bond.

Fundamentals – Five Dimensions of Impact

What?

Reduce child mortality, improve patient outcomes, and increase access to healthcare services for unserved communities.

Who?

People – Children with acute & long-term health needs located near San Diego.

How much?

17,783 total inpatient admissions in FY 2022. 340 staffed beds at care facilities. 154 affiliated medical residents and fellows (UC San Diego School of Medicine).

Contribution

The proceeds will be used to fund quality care to patients and capital improvement projects to renovate/expand facilities. Increased funding will improve access to healthcare services and programs for underserved communities.

Risks

Measurement risk – patient demographic statistics are collected infrequently (every 3-5 years).

Key Performance Indicators (KPIs)

- Number of staffed hospital beds
- Inpatient admissions
- Outpatient visits

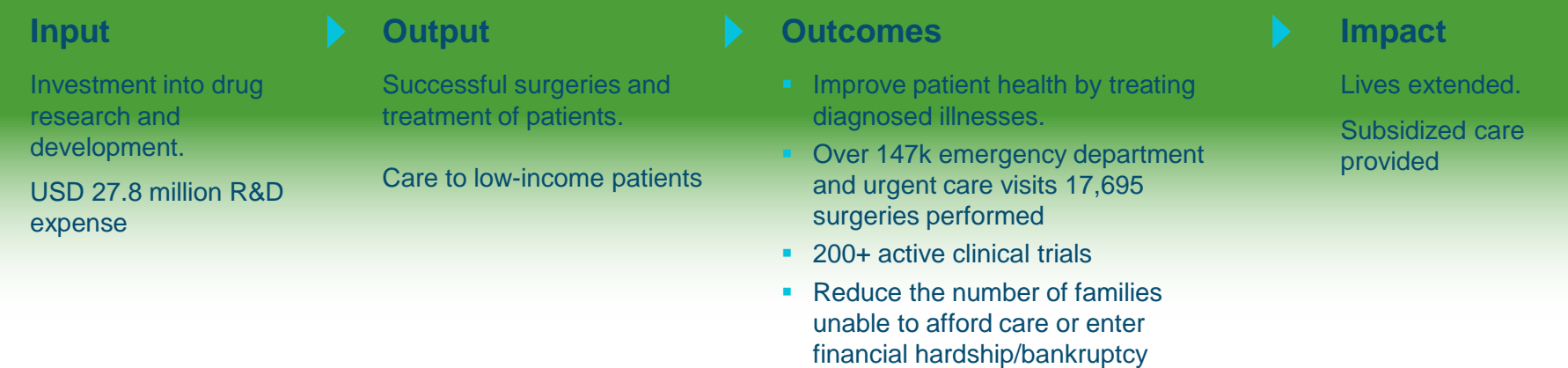
Impact Alignment

Impact Pillar
Social Equity & Quality of Life

Impact Sub-Pillar
Improving Health

UN SDG 

Theory of Change



The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the Strategy, and no assumptions should be made that the securities identified and discussed were or will be profitable. T. Rowe Price uses a proprietary custom structure for impact pillar and sub-pillar classification.

Impact analysis

Evaluating ESG Labelled Bonds



Issuer's ESG Profile

- ✓ Proprietary T. Rowe Price RIIM score
- ✓ Issuer's environmental and/or social targets/commitments



Framework, Standards, Verification

- ✓ ICMA alignment
- ✓ Second party opinion
- ✓ Governance structure



Use of Proceeds

- ✓ Credibility of proceeds
- ✓ Proceeds management and allocation
- ✓ Refinancing
- ✓ Addressing ineligibility



Post-Issuance Reporting

- ✓ Reported allocation of proceeds
- ✓ Audit reporting

Our ESG bond model aims to guard against greenwashing and identify high impact projects.

Impact Analysis in Practice

Ørsted blue bond

As of 30 June 2023

Impact Thesis

Ørsted's blue bond promotes the sustainable use of ocean resources across its offshore wind activities and sustainable shipping fuels business, while preserving biodiversity and the health of the ocean ecosystem. Capital raised from this blue bond will be used to scale-up existing efforts on marine biodiversity, and to support the transition to sustainable shipping.

Fundamentals – Five Dimensions of Impact

What?

Proceeds will be used to facilitate marine ecosystem restoration which is vital in promoting natural resource conservation and ocean biodiversity.

Who?

Planet: protect biodiversity and support improvements in shellfish, coral reefs, seabird habitats, blue economy.

How much?

As the bond was issued in June 2023, the first post-issuance report has not been released.

However, Ørsted plans to use sustainable shipping allocations to support its ambition to take a leading position in developing green ocean fuels and decarbonizing vessels.

Contribution

Ørsted aims for a net-positive biodiversity impact from all new projects commissioned by 2030.

To achieve this ambition, Ørsted is piloting new innovative techniques, with the objective of learning from successes and failures so that it can scale up successful solutions.

Risks

Risk 1: External risks: Extreme weather events and coastal flooding can degrade reefs and marine ecosystems.

Risk 2: Evidence Risk: Notwithstanding progress made in measuring and monitoring climate risks and benefits, collecting biodiversity data is complex and challenging.

Key Performance Indicators (KPIs)

- Increase in biodiversity: Mean species abundance (sq/km), Coral reefs restored.
- GHG emissions avoided through decarbonizing shipping vessels (mtCO₂).

Impact Alignment

Impact Pillar
Climate & Resource

Impact Sub-Pillar
Promoting Healthy Ecosystems

UN SDG



Theory of Change

Input

EUR 100 million proceeds supporting biodiversity and the health of the ocean ecosystem

Output

Principal investment will be used to scale-up existing efforts on marine biodiversity and to support the transition to sustainable shipping

Outcomes

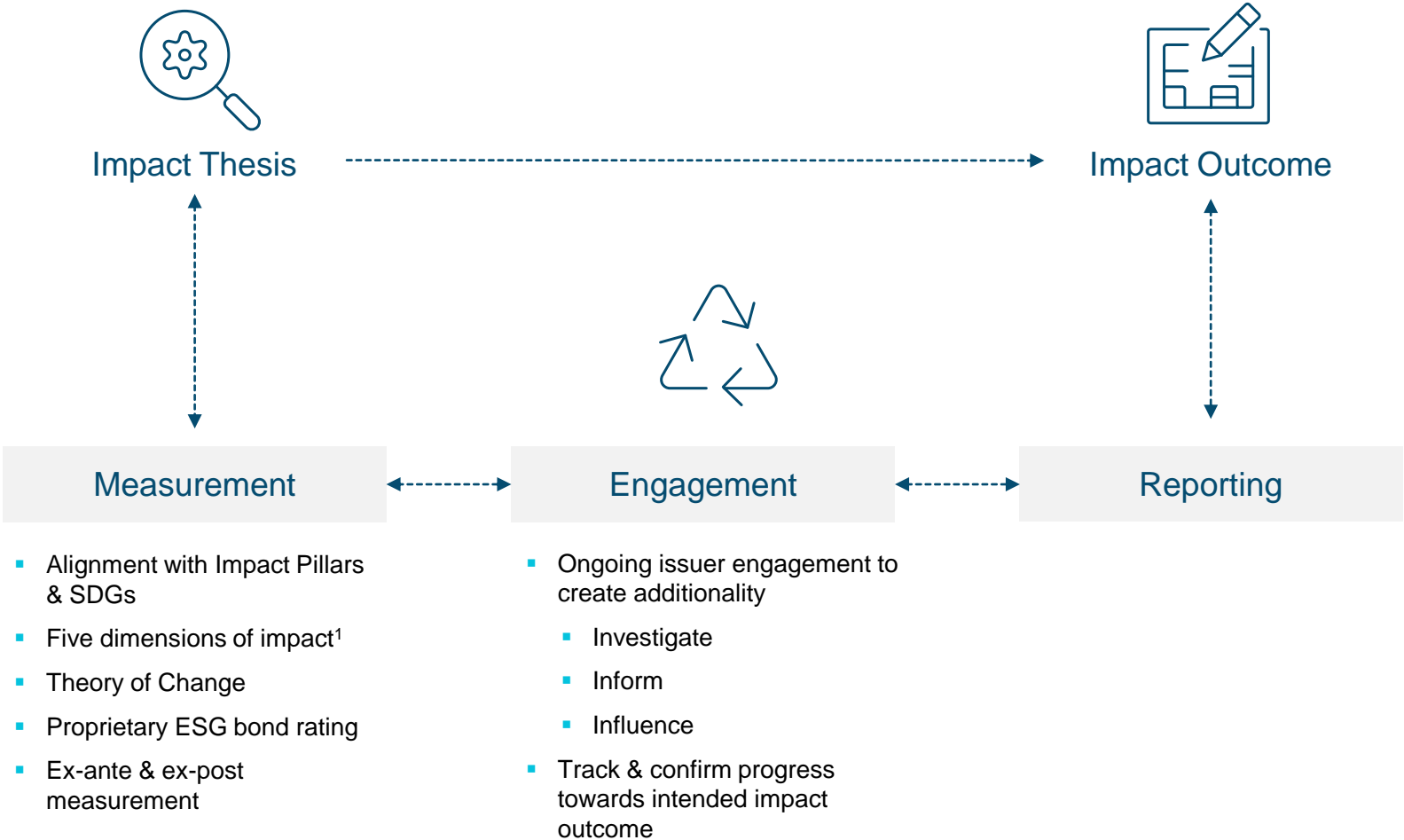
Area of improved marine ecosystems, measured using biodiversity indicators

Impact

Increase in biodiversity as a result of conservation efforts

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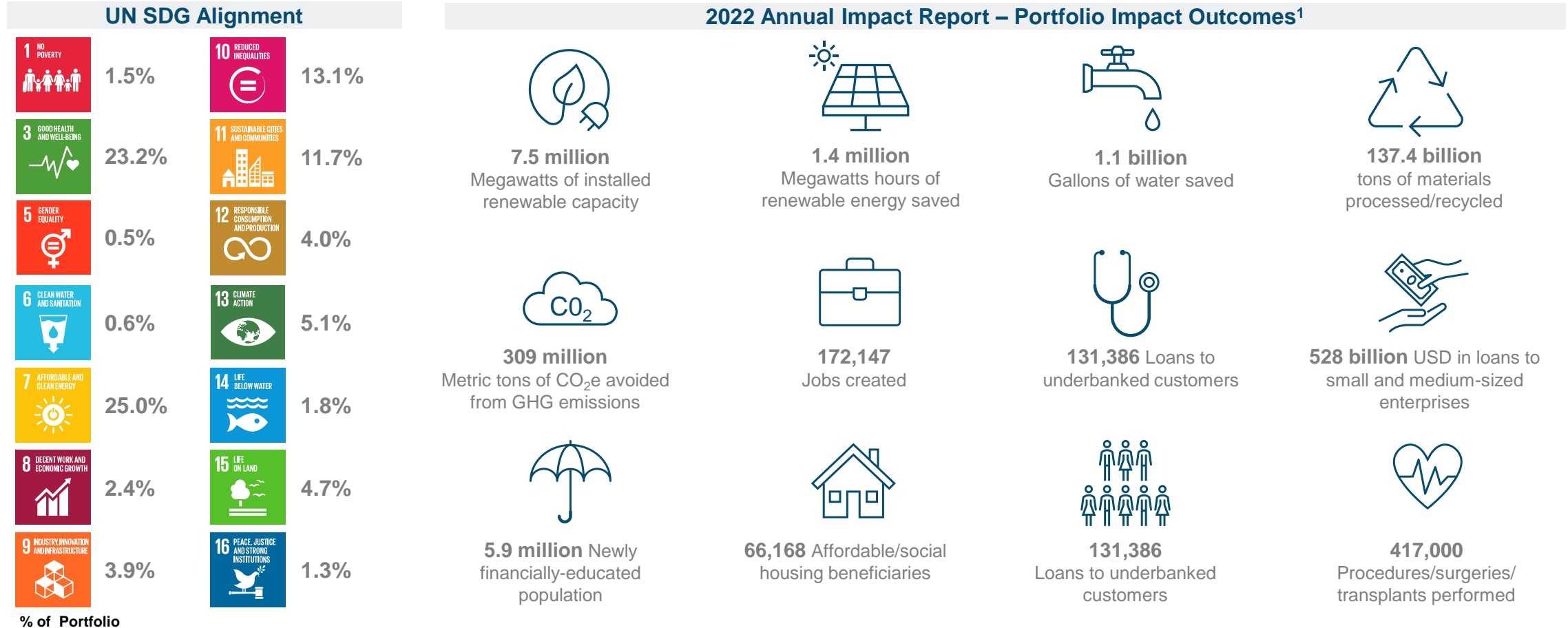
Ongoing monitoring towards intended impact outcomes



Embedded feedback loop throughout lifecycle of impact investment.

Uniformed Impact Reporting – Global Impact Credit Strategy

As of 30 September 2023



¹ Most recent data available. Based on holdings in the portfolio as of date noted above. Holdings and outcomes may have changed from that time. Figures may not total due to cash and rounding. As at 31 December 2022. For illustrative purposes only. The impact outcomes provided here can be susceptible to potential inconsistencies 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.

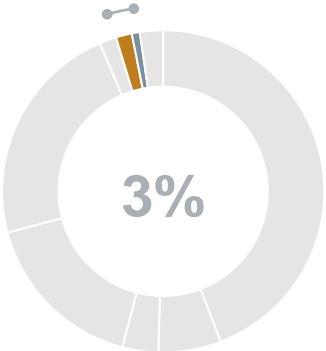
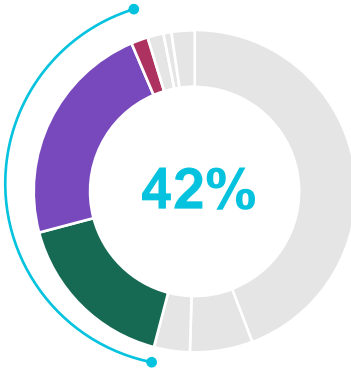
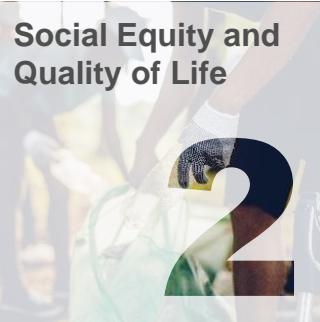
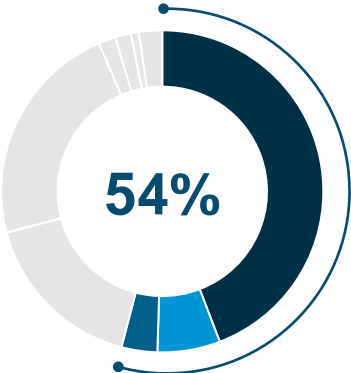
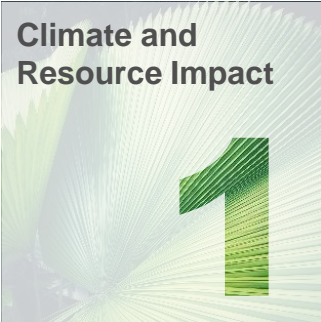
Individual company results may vary significantly and may not achieve the same level of impact in the future.

CO₂e: 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: Eurostat.

Portfolio Positioning by Impact Pillar and Sub-pillar

As of 30 September 2023

Global Impact Credit Strategy



-  Reducing Greenhouse Gases (GHGs) 44%
-  Promoting Healthy Ecosystems 6%
-  Nurturing Circular Economies 4%

-  Enabling Social Equity 18%
-  Improving Health 23%
-  Enhancing Quality of Life 2%

-  Sustainable Technology 2%
-  Building Sustainable Industry and Infrastructure 1%

Figures may not total due to cash and rounding.
 Cash and cash equivalents of 31 August 2023 were 2.3%.
 Source: T. Rowe Price uses a proprietary custom structure for impact pillar and sub-pillar classification.

Portfolio Characteristics

As of 30 September 2023

	Global Impact Credit Strategy	Benchmark ¹
Average Credit Rating ²	A3/Baa1	A2/A3
Weighted Average Maturity (years)	7.78	8.38
Option Adjusted Duration (years)	5.82	5.79
Yield to Worst	6.32%	5.48%
OAS	139 bps	120 bps
Z-Spread	127 bps	107 bps
Number of Issuers	115	2,636
Duration Times Spread	7.77	7.56

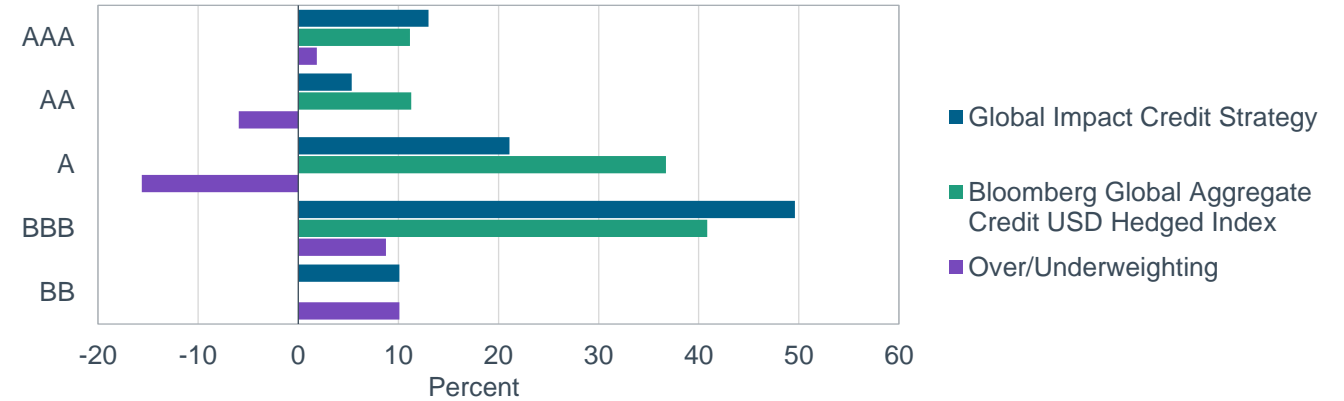
Past performance is not a reliable indicator of future performance.

¹ Bloomberg Global Aggregate Credit USD Hedged Index.

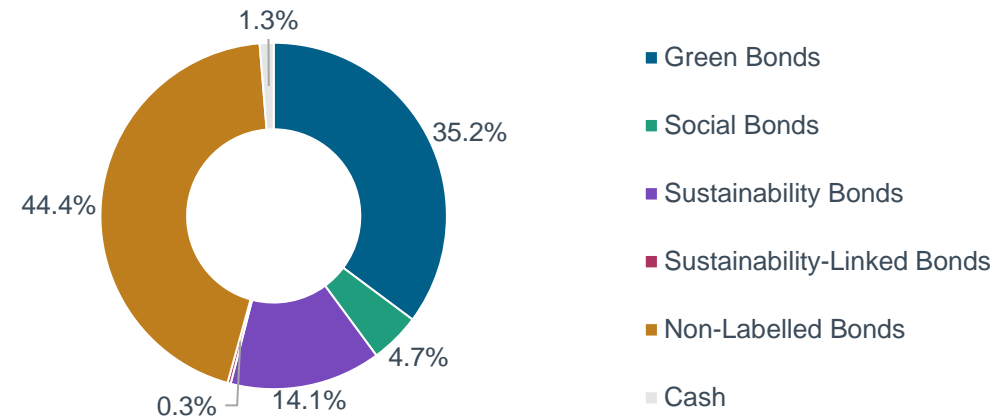
² Credit ratings for the securities held in the portfolio are provided by Moody's, Standard & Poor's and Fitch and are converted to the Standard & Poor's nomenclature. A rating of "AAA" represents the highest-rated securities, and a rating of "D" represents the lowest-rated securities. If the rating agencies differ, the highest rating is applied to the security. If a rating is not available, the security is classified as Not Rated (NR). T. Rowe Price uses the rating of the underlying investment vehicle to determine the creditworthiness of credit default swaps and sovereign securities. The portfolio is not rated by any agency.

Source: "Bloomberg" and Bloomberg Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by T. Rowe Price. Bloomberg is not affiliated with T. Rowe Price, and Bloomberg does not approve, endorse, review, or recommend this product. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to this product.

Credit Quality Rating²



Positioning by ESG Bond Label



Global Impact Credit Strategy

Objective

To have a positive impact on the environment and society by investing primarily in sustainable investments, where the companies' current or future business activities are expected to generate a positive impact whilst at the same time seeking to increase the value of its shares through both growth in the value of, and income from, its investments.

Material Risks – The following risks are materially relevant to the portfolio:

- **ABS and MBS risk** – 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 Bonds risk** – 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.
- **Convertible bonds risk** – Convertible bonds contain an embedded equity option which exposes them to risks linked to equity as well as fixed income. They may be subject to higher market and liquidity risk.
- **Credit risk** – Credit risk arises when an issuer's financial health deteriorates and/or it fails to fulfill its financial obligations to the portfolio.
- **Distressed or defaulted debt risk** – Distressed or defaulted debt securities may bear substantially higher degree of risks linked to recovery, liquidity and valuation.
- **Default risk** – Default risk may occur if the issuers of certain bonds become unable or unwilling to make payments on their bonds.
- **Derivatives risk** – Derivatives may be used to create leverage which could expose the portfolio to higher volatility and/or losses that are significantly greater than the cost of the derivative.
- **Emerging markets risk** – Emerging markets are less established than developed markets and therefore involve higher risks.
- **High yield debt risk** – 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 risk** – Interest rate risk is the potential for losses in fixed-income investments as a result of unexpected changes in interest rates.
- **Liquidity risk** – Liquidity risk may result in securities becoming hard to value or trade within a desired timeframe at a fair price.

General portfolio risks – to be read in conjunction with the portfolio specific risks above.

- **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 fund 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.

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