Improving Corporate Disclosure on Environmental Issues

Real, long-term influence demands a multilayered approach.

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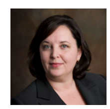

Donna Anderson
Head of Corporate Governance

KEY INSIGHTS

- Climate change has become a much more urgent environmental, social, and political concern, with distinct challenges for investors.
- Improving company disclosures on environmental issues is crucial for calculating risks within investment portfolios.
- We combine proxy voting, including judiciously voted shareholder proposals, with engagement to promote better disclosures.

Discourse among the public, politicians, and investors on the climate change problem has intensified remarkably. There is now a heightened emphasis by the media and environmental advocates on shareholder proposals that focus on climate issues. That scrutiny is particularly focused on how asset managers vote on shareholder proposals related to environmental issues, especially those oriented to improving disclosure.

We believe the added media attention is ultimately a force for good that can help improve corporate disclosures in this area. However, there are many nuances to environmental shareholder proposals to consider. Simply measuring the category of voting on a straight *for* or *against* vote metric is misleading. The complex problem of climate change requires a multidimensional approach that includes, but goes beyond, proxy voting.

A Multidimensional Focus on Better Disclosure

We believe that climate change is a critical investment issue—it is a global challenge that will touch virtually our entire investment universe.

Globally, regulations to mitigate climate change remain limited, but we expect they will broaden and intensify in coming years, elevating the potential impact on corporate performance and profits and spanning sectors and geographies.

Robust corporate disclosure of environmental data is essential to our efforts to measure how a company is placed to respond to any changing regulations and, as such, how attractive it will be as an investment. At T. Rowe Price, we use our scale and influence to improve disclosure practices of companies in a multidimensional way. We combine proxy voting, engagement, investment diligence, and, ultimately, as a large active manager, portfolio construction.

64,249

Total number of proxy votes cast by T. Rowe Price at company meetings in 2019.

Influence on ESG Matters Starts From Within

At T. Rowe Price, we are fortunate to manage USD 1,206.8 billion of assets for clients,[1] which are dominated by actively managed strategies. The scale and scope of our business puts us in a powerful position compared with many of our peers when we carry out our environmental, social, and governance (ESG) engagements with companies.

Our principal focus on actively managed portfolios also affords us real influence. In most cases, if we see an impediment to reaching our investment goals, such as a company's poor business practices or environmental disclosure, we have the option not to invest. This contrasts with managers of traditional passive portfolios, who have no choice but to hold an investment regardless of concerns over business practices or levels of disclosure.

Integrating ESG considerations into our broader research platform adds another crucial dimension. We have made significant investments in technology and personnel to develop a comprehensive, systematic, and proactive process for evaluating environmental, social, and ethical factors across corporate investments. Our proprietary Responsible Investing Indicator Model (RIIM) complements our deep, fundamental investment research. It builds an environmental, social, and ethical profile of corporate entities largely using nonfinancial data and incident history—data not traditionally used in mainstream investing. The research is readily available on analyst and portfolio manager desktops, readily supporting their ability to integrate environmental, social, and ethical factors into their investment analysis and decisions.

The Power of the Proxy

Proxy voting is a crucial link in the chain of stewardship responsibilities that we execute on behalf of our clients. Each vote represents both the privileges and the responsibilities that come with owning a company's equity instruments. It provides an opportunity to express a view on each company's adherence to principles of corporate governance as well as company-specific circumstances. Ultimately, the aim is to use votes to foster long-term, sustainable success for the company and its investors.

Across the range of T. Rowe Price portfolios, our clients own stock in over 6,000 companies globally. Each company holds at least one shareholder meeting annually. In total, we cast proxy votes on more than 64,249 agenda items at 6,350 meetings in 2019.

In just a few markets around the world, shareholders of a corporation are afforded the right to present resolutions to a vote. In 2019, there were 1,439 such items in our portfolios. Excluding shareholder-nominated directors and auditors, there were 738 shareholder resolutions seeking a vote on ESG matters: 375 addressed governance issues, 330 addressed environmental and social concerns, and 33 were withdrawn right before the meeting.

Although the 330 environmental and social items represented just one-half of 1% of all proposals we voted on, understandably, we see keen interest in our approach to voting on such resolutions, given mounting investor concern in this area.

T. Rowe Price does not have a standing voting policy on any matters of a social or environmental nature; each voting decision is reviewed by our portfolio managers on a case-by-case basis. Shareholder proposals are nonbinding

[1] As at December 31, 2019. Firmwide AUM includes assets managed by T. Rowe Price Associates, Inc. and its investment advisory affiliates.

> We believe that one-on-one engagement with companies typically produces better outcomes than shareholder resolutions.
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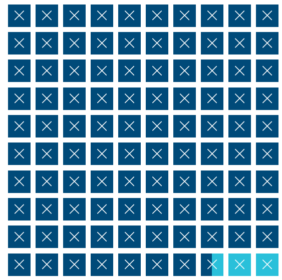
> — **Donna Anderson**
> *Head of Corporate Governance*

T. Rowe Price Proxy Voting 2019

Shareholder proposals represent less than 2.5% of all eligible votes



Management Proposals
62,810

Shareholder Proposals
1,439

701 Directors and Auditors
375 Governance
330 Environmental and Social
33 Not Presented

As of December 31, 2019.

votes that are nearly always opposed by the company's management and typically find little support. As a result, on issues like disclosure-focused shareholder resolutions, which represented the majority of the 330 environmental and social proposals we voted on in 2019, we consider whether alternative or more practical opportunities may be available to yield the disclosures desired. For example:

Recognized Lack of Disclosure: There are instances when we find a company has not disclosed the information necessary to assess its environmental impact, emissions, or practices. However, many companies in this situation also publicly accept their responsibility to be more transparent. When a company has given us assurances that it will publish ESG data within a short time frame, we are unlikely to support shareholder proposals asking for disclosure.

Poorly Targeted Disclosure Requests: We may disagree with the proponent of a shareholder proposal that additional disclosure is needed. For example, when a small or mid-size company receives a request to produce a comprehensive sustainability report, we

Environmental and Social Disclosure Proposals

T. Rowe Price voting record in 2019

Classification	Voting Record	Description
Unreasonable Requests—Overly Prescriptive	89 against	In some cases, we regard the proposal as too prescriptive. It does not ask for reporting or disclosure. Rather, it asks the company to make a specific change to its strategy. We believe this should be a board decision and always vote against such proposals.
Redundant Requests	75 against	We believe the companies in question already provide sufficient disclosure on the stated topic.
Political Proposals	60 against	We generally find these requests unsuitable for shareholder proposals and typically vote against.
Poorly Targeted Disclosure Requests	51 against	In these instances, we disagreed with the proponents' basic premises. Additionally, we advocate for an ESG disclosure that is aligned with the SASB and TCFD as a best practice, so we are unlikely to support shareholder proposals that ask for other types of disclosure.
In Favor	33 for	We agreed with the proponents and voted in favor of the proposals.
Unreasonable Requests—Anti ESG	13 against	The proposals are anti-ESG and aim to have the company unwind its corporate responsibility initiatives.
Disclosure in Progress	6 against	The company has already committed to improving disclosure on the topic of the proposal.
Share Blocking	3 no vote	Did not vote.

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> *Director of Research, Responsible Investing*

assess whether this would be the best use of the company's limited resources. We may instead recommend that it disclose the data that are most material to its business model. Additionally, we advocate that making an ESG disclosure that is aligned with Sustainability Accounting Standards Board (SASB) and Task Force on Climate-Related Financial Disclosures (TCFD) as a best practice, so we are unlikely to support shareholder proposals that ask for other types of disclosure.

Overly Prescriptive Requests: A minority of environmental and social shareholder proposals asked the company to take a specific action. These included requests to adhere to a specific employment policy, to curtail a particular line of business, to establish a Board committee, to change the executive compensation program, and so on. T. Rowe Price rarely supports prescriptive shareholder resolutions such as these.

In our view, the Board is better placed than shareholders to make decisions about the operations of the company. Our recourse, if we disagree with the Board's decisions, is to oppose the election of directors, engage with the company, or use our prerogative as an active owner to sell or underweight the position.

Redundant Disclosure Requests: In some instances, shareholder proposals seek ESG disclosure despite the company already demonstrating a high level of transparency. This might include its participation in the Investor CDP (formerly the Carbon Disclosure Project) an intensive survey focused on the climate-readiness assessment.

Our experience after many years of assessing ESG issues as part of our investment process is that direct, one-on-one engagement with companies typically produces better outcomes than shareholder resolutions.

Collaborative Engagement

T. Rowe Price participation in global advocacy and engagement initiatives

Organization	Description	Status	Joined
UN Principles for Responsible Investment (PRI)	Global initiative for responsible investment.	Signatory	July 2010
UK Stewardship Code	Public commitment to uphold stewardship principles for UK investors.	Signatory	September 2010
Japan Stewardship Code	Public commitment to uphold stewardship principles for Japanese investors.	Signatory	August 2014
Associação de Investidores no Mercado de Capitais (AMEC)	Association of minority investors in Brazil.	Member	2015
Asia Corporate Governance Association (ACGA)	Pan-Asian association for institutional investors.	Member	2016
UK Investor Forum	Collaborative engagement association for investors in UK companies.	Founding Member	August 2016
Investor Stewardship Group (ISG)	Investors advocating for core governance principles for U.S. market participants.	Founding Member	2017
Japan Stewardship Initiative	Investor forum for stewardship solutions and sharing of best practices.	Signatory	November 2019
Investment Association Climate Change Working Group	Group to direct the work of the UK investment management industry trade body in relation to climate change.	Member	2020
Investor CDP (formerly the Carbon Disclosure Project)	Advocacy group for better disclosure of carbon emissions.	Signatory	>5 years
Council of Institutional Investors (CII)	U.S. association of institutional investors, corporate issuers, and asset managers.	Associate Member	>10 years

As of January 2020.

It is important that this small subsector of voting is viewed in the context of our broader voting activity that includes management resolutions and our wider engagement program.

Direct Engagement Blended With Measured Collaboration

The sheer size of our assets under management and our reputation as thoughtful, long-term investors has clout. Simply put, it gives us better access to company management.

Among our broad range of engagement objectives, we have sought to encourage steady improvements in ESG disclosure. This reflects the fact that we believe that climate change is a critical investment issue, and, in order to safeguard our investments, we need to ensure that we are able to accurately assess a company's environmental footprint. For this reason, we have dedicated significant time in company engagements to discuss disclosures related to climate change. In fact, ESG disclosure was our number one engagement topic of 2019, with environmental disclosure a feature of 38% of our ESG engagements (656 engagements in total).

Our aim in these engagements is to help companies understand how they should report environmental data (as there is no uniformly adopted standard), how we use ESG data in their investment analysis and decision-making, and how our clients use ESG data to evaluate their aggregated portfolios.

Given the extent of our disclosure-related ESG engagements, in 2019, we established a dedicated ESG education seminar for investor relations professionals. We held our first of these seminars in December and plan to hold several more through 2020.

Collaborative industry bodies are also available to facilitate engagement. However, as our size and scope afford us ready access to company management, the need to join forces with other asset managers simply for engagement is limited. We participate where there is an opportunity to complement our core engagement program, including disclosures.

When considering participation in a collaborative engagement initiative, we weigh the following factors:

Alignment—How closely aligned is this engagement opportunity with our investment holdings? Does it include companies where we are significant shareholders?

Impact Potential—Would our participation help the engagement initiative? Does it need a large asset manager merely to gain attention, or does it already have broad support?

Resource Focus—Does the engagement make the most efficient use of our internally dedicated engagement resources?

Practicality—Have we already undertaken the same engagement or very similar engagements unilaterally with success?

Tangibility—Is the scope of the collaborative engagement clear, and are we confident that it will not change over time?

Conclusion

We see that disclosure of environmental data has been improving, but companies need to do more. Our clients are increasingly concerned about environmental-related risks within their portfolios. For us, environmental data are a key component within our responsible investing risk model, which integrates into our broader investment process.

The imperative to foster improved disclosure of environmental data is clear. As an influential active manager with a carefully managed proxy voting and engagement program, we have tangible resources and processes in place to support this important objective.

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T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

T. Rowe Price®

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