



May 16, 2022

Via Federal eRulemaking Portal: <https://www.regulations.gov>

Office of Regulations and Interpretations
Employee Benefits Security Administration, Room N-5655
U.S. Department of Labor
200 Constitutional Avenue NW
Washington DC 20210

Re: Request for Information on Possible Agency Actions to Protect Life Savings and Pensions from Threats of Climate-Related Financial Risk
Z-RIN 1210-ZA30

Ladies and Gentlemen:

This letter provides the response of T. Rowe Price Associates, Inc. to the Department's recent request for information on addressing climate-related financial risks. We appreciate the chance to share our observations about the Department's role in addressing climate-related financial risks.

About T. Rowe Price

T. Rowe Price Associates, Inc. serves as investment adviser to the T. Rowe Price family of mutual funds and provides advisory services to collective funds maintained by its affiliate, T. Rowe Price Trust Company. Through mutual funds and collective trusts, as well as its sub-advisory and separate account management services, T. Rowe Price provides investment services to retirement plans of all sizes. T. Rowe Price is the largest provider of actively managed target date funds and trusts.¹ As of December 31, 2021, approximately 42% of T. Rowe Price's total assets under management of \$1.69 trillion were held in defined contribution retirement plans.

Discussion

Under current law, ERISA fiduciaries are empowered to consider climate change impacts whenever those impacts are deemed to be material to risk or expected return of an investment.² As a result, many asset managers serving as ERISA fiduciaries are already evaluating these impacts when evaluating investment opportunities or overseeing portfolios. Active managers like T. Rowe Price

¹ Source: Morningstar, Inc. 2022 Target Date Strategy Landscape (March 23, 2022).

² Under the 2020 Financial Factors in Selecting Plan Investments regulation, 85 Fed. Reg. 72846 (November 13, 2020), climate-related risks that are anticipated to have a material impact on risk or return are "pecuniary factors" that may be considered by fiduciaries when making investment decisions. Were the Department to finalize the amendment to that rule proposed in 2021, plan fiduciaries' consideration of climate change-related factors material to the risk and return analysis of a proposed investment would be explicit in the rule's text. 86 Fed. Reg. 57272 (October 14, 2021).

are particularly well-positioned to take the material impacts of climate change into account when making investment decisions for clients.

As an active investment manager, T. Rowe Price seeks to obtain a thorough understanding of companies in which we seek to invest for our funds and clients. In order to understand each company's long-term viability and relative value, we have teams of portfolio analysts dedicated to studying the companies' specifics, their industries and their ecosystems to select investments. This is the work of active management, and we are committed to doing that evaluation as thoroughly as possible.

For more than a decade, we have devoted resources to building and enhancing our capabilities to evaluate environmental, social and governance factors. Delivering excellence in financial performance and client service is our primary objective and we believe that integrating ESG into our investment process—evaluating how ESG factors positively or negatively affect the performance of securities—can help our portfolio managers make sounder decisions. The better equipped we are to evaluate ESG impacts on a particular issuer, the better able we are to evaluate that issuer's future success. We have built a proprietary model that allows us to assess ESG factors and have invested our research dollars to obtain sources of data to populate that model for portfolio companies. We have a team of 24 analysts dedicated specifically to ESG analysis.

We use these resources to engage with portfolio companies and other issuers. In 2021, 23% of our company engagements were focused on environmental topics, and we used those opportunities to develop a deeper understanding of important factors like a company's carbon footprint trajectory or approach to mitigating energy transition risk. Additionally, our engagements give us the opportunity to verify the credibility of corporate targets. For example, when one well-known public company had not provided sufficient information on how it planned to achieve its commitment to reach net zero greenhouse gas emissions by 2040 in its filings, we pressed for more information on how it was progressing towards meeting that goal.³

Unlike passive investing, active management lends itself to a more robust evaluation of the impact of climate change on a particular security. As climate change regulation and physical climate impacts are more recent phenomenon that are expected to accelerate in the coming years, current and historical data are not good indicators of a company's or other issuer's potential exposure. Active managers factor that forward-looking evaluation into decisions whether to buy or sell securities for portfolios they manage. This is one of the strengths of active management. The low cost offered by many passive products reflects the absence of fundamental research into the particulars of any given company held in the index. Passive management, adopted wholesale (as some private ERISA litigants encourage), would result in a retirement landscape in which potentially material impacts of climate change are absent from the investment thesis.⁴

³ More information about T. Rowe Price's engagement on environmental and climate change topics is available in our 2021 ESG Annual Report available at <https://www.troweprice.com/institutional/us/en/lp/esg.html> (last accessed May 16, 2021).

⁴ One commentator in the United Kingdom hypothesizes that passive fund investing in UK-listed companies may result in "stewardship 'inertia'" and threaten the UK's climate transition. *See* Passive Funds Could Threaten UK Climate Transition, Warns Think Tank," Financial Times (April 19, 2022).

Despite T. Rowe Price's commitment to active management and our dedication to evaluating climate change risks as part of that effort, we do not believe that the Department should take further action to emphasize potential climate-related risks in plan investing. Two reasons in particular inform our view. First, part of today's challenge in evaluating the impact of climate change on any given security is the lack of transparency. U.S. public companies are not yet required to make disclosures about environmental, social and governance (ESG) factors, so the datasets necessary for robust evaluation of climate change can be difficult to obtain. Greater transparency by public companies about the impact of climate change on their financial future would be needed before anyone responsible for investments, including ERISA fiduciaries, could be charged with special obligations to assess impacts of climate change. The Securities and Exchange Commission is evaluating proposals to require greater transparency by public companies, and we are supportive of efforts to mandate enhanced reporting on ESG topics.

Second, and more importantly, if the Department were to place special emphasis on climate change risk through enhanced reporting requirements or other means, that action would elevate climate-related risks above other financial risks that a particular investment opportunity might pose. Such an outcome might result in skewed decision making by fiduciaries.

Where we believe the Department can play a role in addressing climate change is to reevaluate its assessment of active management. The Department should recognize that each management style—active and passive—has its own strengths and should not favor one over the other. But, from time to time, the Department has advanced policy proposals reflecting a view that passive investing is better because it is cheaper.⁵ Such a default setting leaves the public with the impression that the Department subscribes to the view that passive products are inherently superior to active products for retirement plan investing. We do not agree. Passive investing has its place, but there are certain respects in which the fundamental analysis that defines active management can provide superior

⁵ For example, in its 2020 proposal for the Financial Factors in Selecting Investments regulation, the Department listed as one benefit of the rule the future cost savings due to lessened active management. "In this case, the societal resources freed for other uses due to lessened active management (minus potential upfront transition costs) would represent benefits of the rule." Financial Factors in Selecting Plan Investments, 85 FR 39113, 39121 (June 30, 2020).

value. Evaluating the potential risks of climate change on the risks and rewards of an investment opportunity or portfolio security is one of those areas.

Thank you for the opportunity to provide input on this important topic.

Sincerely yours,



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cc: Aliya Robinson, Managing Counsel