T. Rowe Price
INVEST WITH CONFIDENCE

T. Rowe Price Fixed Income ETFs: Staying Active Has Its Advantages

Passively managed fixed income exchange-traded funds (ETFs) remain a popular choice for many investors, but they come with a number of potential challenges. Actively managed ETFs differ in several key aspects from their passive counterparts, and more investors are turning to these vehicles to address their fixed income investment needs.

The Challenges of Passive ETFs

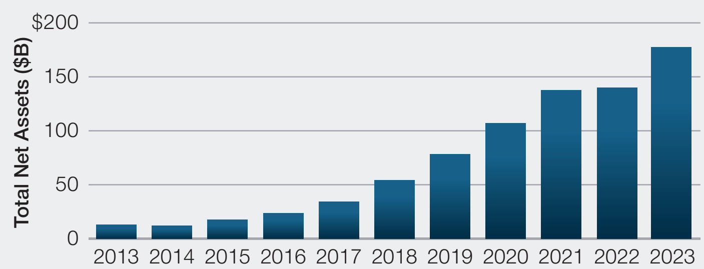
1. **True index replication is nearly impossible.**
   The Bloomberg U.S. Aggregate Bond Index is a case in point. This benchmark comprises over 12,000 individual securities, some of which are very thinly traded. To replicate the index with each component security would be both time-consuming and prohibitively expensive due largely to wide bid/ask spreads.

2. **Passive strategies often lack the flexibility to adapt to changing market environments.**
   If there is meaningful credit deterioration in a particular industry, for example, a passive ETF may continue to hold the affected bonds. On the flip side, these products aren't designed to increase exposure to a company or sector that is judged to be undervalued, and, thus, may be poised to perform well.

3. **There is an absence of individual security research and analysis in passive fixed income ETFs.**
   By simply buying a large basket of bonds, these vehicles face the potential for greater credit risk and issuer default. Bonds are included in the portfolio merely because they are in the index, not because an experienced investment professional applied fundamental research to independently evaluate their credit quality.

Investor interest in actively managed fixed income ETFs has increased.

Actively Managed Fixed Income ETFs,* Year-End Total Net Assets, 2013–2023



*Total net assets include U.S. actively managed ETFs in Taxable Bond and Municipal Bond categories as defined by Morningstar.
Source: Morningstar; analysis by T. Rowe Price.

The T. Rowe Price Fixed Income Difference

1. **Active ETFs offer the potential to outperform fixed income benchmarks and indexes.**
   By seeking to avoid bonds with looming credit issues and owning those with more attractive fundamentals, our actively managed ETFs seek to deliver meaningful alpha for fixed income investors—and this potential for cumulative outperformance over a benchmark can add up over time.

2. **Careful security selection may offer both liquidity and convenience.**
   Rather than owning thousands of bonds to replicate the holdings of an index benchmark, our investment professionals can be more discerning when it comes to security selection. For investors seeking to avoid some of the pitfalls of passive fixed income strategies, an active strategy that emphasizes higher quality bonds with favorable liquidity profiles could help. Additionally, we may use periods of heightened volatility to take advantage of perceived market mispricing.

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3. **T. Rowe Price combines multiple approaches into a comprehensive analytical process.**
   We believe fundamental, macro, and quantitative analyses are all essential for actively managed portfolios. For each security, we perform a rigorous bottom-up evaluation that digs deep into a company's current financials, future prospects, and industry trends. At the same time, our macro analysis focuses on how economic variables could affect both individual securities and the wider fixed income market. Finally, our quantitative team creates models and rules-based approaches that are used in the active management of bond portfolios.

A Core Component of Client Portfolios

With decades of experience over multiple market cycles, T. Rowe Price has a long track record of applying our repeatable, research-based investment process in pursuit of excess returns over our benchmarks. In creating our active ETFs, we believe investors stand to benefit from our long-standing strategic approach to investing in a convenient, cost-effective investment vehicle.

T. Rowe Price has five distinct ETFs that together could form the core of an investor's fixed income allocation:

- Floating Rate ETF (TFLR): Invests primarily in institutional floating-rate bank loans and other floating-rate debt securities with below investment-grade credit ratings. Broadly diversified across 125–150 credit facilities, with strict exposure limits to manage risk.
- QM US Bond ETF (TAGG): Seeks to exceed the performance of the Bloomberg U.S. Aggregate Bond Index, a common measure of the domestic investment-grade bond market. The portfolio manager selects a set of U.S. dollar-denominated bonds that represent key benchmark traits while attempting to generate a modest amount of outperformance over the index.
- Total Return ETF (TOTR): Invests in a diversified portfolio of bonds and other debt instruments. The fund has considerable flexibility in pursuit of strong portfolio returns and is constructed to be able to respond to a wide variety of market conditions.
- U.S. High Yield ETF (THYF): Normally invests at least 80% of its net assets in U.S. high yield instruments (below investment grade). The fund focuses its investments on high yield corporate bonds but may also invest in other income producing instruments including bank loans, convertible securities, and preferred stocks.
- Ultra Short-Term Bond ETF (TBUX): Invests in a diversified portfolio of shorter-term investment-grade corporate and government securities, asset-backed securities, and bank obligations. Invests at least 80% in bonds, and all of the securities purchased by the fund will be rated investment grade at the time of purchase.

Conclusion

Investors have long appreciated T. Rowe Price's commitment to strategic investment management based on sound fundamental research and actively managed portfolios. Now, investors can access the benefits of our global resources and investment experience through our suite of active fixed income ETFs. After all, why settle for matching a benchmark when you could try to exceed it?

Additional Disclosures

Important Information

Consider the investment objectives, risks, and charges and expenses carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, visit troweprice.com. Read it carefully.

ETFs are bought and sold at market prices, not NAV. Investors generally incur the cost of the spread between the prices at which shares are bought and sold. Buying and selling shares may result in brokerage commissions, which will reduce returns.

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Risk Considerations: All investments are subject to market risk, including the possible loss of principal. Fixed-income securities are subject to credit risk, liquidity risk, call risk, and interest-rate risk. As interest rates rise, bond prices generally fall. If interest rates rise significantly from current levels, bond fund total returns will decline and may even turn negative in the short term. Active investing may have higher costs than passive investing and may underperform the broad market or passive peers with similar objectives. Passive investing may lag the performance of actively managed peers as holdings are not reallocated based on changes in market conditions or outlooks on specific securities.

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