T. Rowe Price

T. Rowe Price Funds SICAV

US Smaller Companies Equity Fund

Our best investment ideas from across the US small-cap universe

Fund snapshot

- An actively managed, widely diversified portfolio of shares from smaller cap US companies
- Invests primarily in companies with a market cap equal to or smaller than companies in the Russell 2500 Index at time of purchase
- Core style maintaining broad exposure to both growth and value stocks

Asset class	US equities
Benchmark*	Russell 2500 Net 30% Index
Inception	June 2001
Co-Portfolio Managers	Curt Organt Matt Mahon
Style	Small cap core
No of holdings	150-200
ISIN	LU0929966207 (Q USD) LU0133096981 (I USD)

Fund overview

"We utilise the full opportunity set, from out-of-favour smaller companies with strong potential for improvement, to companies that may appear fully valued, but whose long-term growth potential is underappreciated. The identification of a value creation catalyst is key."

Curt Organt | Co-Portfolio Manager

The US Smaller Companies Equity Fund seeks to invest in a widely diversified portfolio of shares from smaller capitalisation companies in the United States. By size, it has the flexibility to invest in companies from micro-caps to those reaching mid-cap size (up to ≈US$18bn market capitalisation).

As a result of our bottom-up stock selection process, holdings are broadly diversified among sectors and industries. We maintain a blend of value and growth stocks, opportunistically purchasing emerging growth stocks when our research leads us to believe a company's true growth potential is not fully appreciated by others in the marketplace and purchasing value and core stocks when we believe they are trading at attractive valuations.

Reasons to consider this fund

Alpha Opportunity

This fund seeks to exploit structural inefficiencies created by extreme swings in market sentiment, selecting from a broad universe of stocks which are subject to much less research coverage relative to larger companies.

Balance Risk and Return

We seek to balance high risk-adjusted returns with market-like or lower levels of volatility by building a diversified portfolio of smaller and mid-cap companies from across the growth/value and size spectrums.

Small Cap Expertise

We have maintained a leading commitment to small and mid-cap research going back to 1956, which we believe provides a strong competitive advantage to identify and understand the most compelling opportunities.

When investing in funds, certain risks apply, which include those specific to investing in small and mid-cap stocks. For a full list of risks applicable to this fund, please refer to the prospectus.

*The manager is not constrained by the fund's benchmark, which is used for performance comparison purposes only.

The compelling case for US small caps

Quick takeaways

- The US has the largest and most diversified smaller companies' opportunity set in the world, but analyst coverage remains low
- This area of the US market is home to many well-positioned, high quality companies with durable, long-term growth characteristics
- At the portfolio level, US small caps offer attractive diversification and return potential

We believe there are compelling reasons for maintaining a long-term, strategic allocation to US smaller companies.

The home of future winners

Companies in this segment of the market have the potential to achieve higher investment returns over the long term. While it is true that smaller companies tend to be more volatile, they have historically outperformed their larger counterparts, particularly in the years following a bear market. This makes sense as many of these companies are in the early stages of their development, are potentially undergoing rapid expansion, and yet are still small enough to deliver growth that is meaningful. They are often more prepared to innovate, are less bureaucratic and nimbler. They may have a competitive edge in their respective industry sectors. And the managers of smaller companies often retain a significant stake in their businesses, something that aligns their interests with those of external shareholders.

Furthermore, the size of the domestic economy gives companies plenty of room to scale up and grow. The US offers a particularly supportive, pro-business environment where entrepreneurship is esteemed, and small business success stories are championed, encouraging others to follow suit.

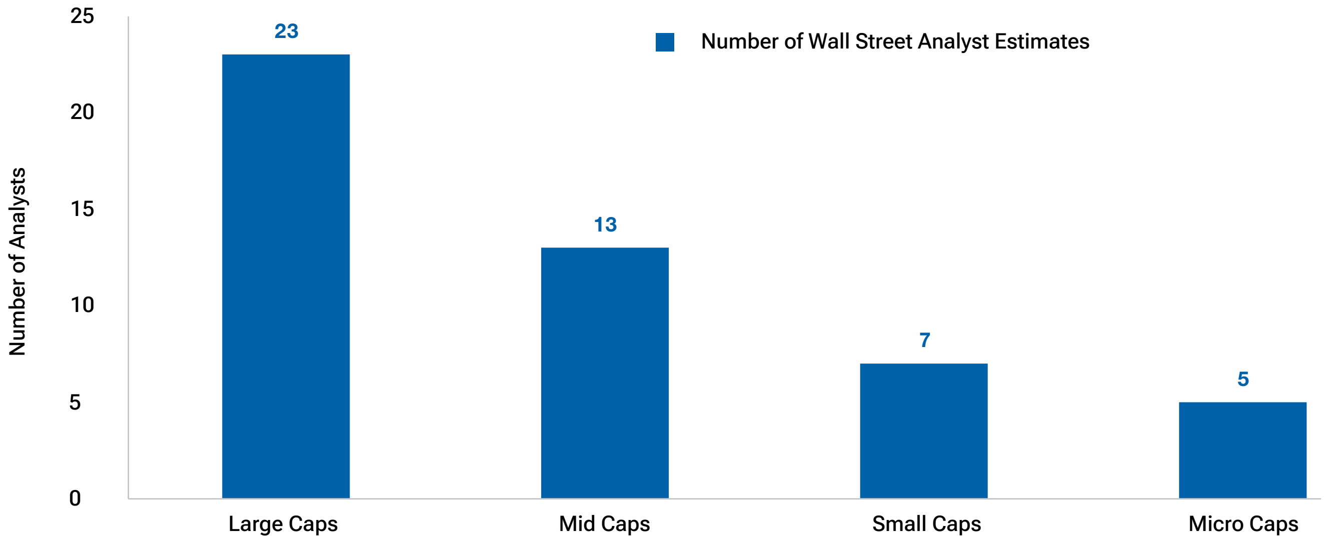
A diverse and under-researched landscape

The 3,000+ US mid and small cap companies that are represented by the Russell 2500 Index make up 15-20% of the aggregate market capitalisation of the US equity market. They include a broad and diverse mix of businesses in which to invest—from established industry leaders to new and innovative "micro-caps" at the smallest end of the size spectrum. In comparison, the larger end of the market tends to be more concentrated, and significantly skewed towards a few main sectors.

At the same time, many companies remain underappreciated, or even unknown, by the broader investment community. Small and medium-sized companies are often less covered by traditional Wall Street analysts, which creates good opportunities for research-driven, active stock-pickers to uncover hidden gems.

Over the long term, we believe US smaller companies present global investors with attractive diversification opportunities, and with typically greater dispersion than large caps, can provide active investment managers with better opportunities to add value.

Fig. 1: Less coverage, less efficiency in small cap



Sources: T. Rowe Price calculations using data from FactSet Research Systems Inc. All rights reserved. Large-Cap represented by 200 largest companies in the Russell 3000, Mid-Cap represented by companies 201-1000 in the Russell 3000, Small-cap represented by companies 1,001-2,000 in the Russell 3000 and Micro-Cap is represented by the remaining companies in the Russell 3000. As at 31 March 2023.

Our Investment Approach

Quick takeaways

- Bottom-up fundamental research is the key to understanding both the opportunities and the risks associated with smaller companies
- Our fundamental research focuses on identifying companies with competitive advantages and solid, long-term growth potential
- The fund is designed to deliver a core style-oriented portfolio drawing from the full opportunity set of smaller companies, from deep value to aggressive growth stocks

Research-led, bottom up focus

Our approach relies on the intensive, proprietary research of our team of nearly 50 analysts to find the companies they believe have the greatest investment potential, from deep value to aggressive growth stocks.

We look for companies with a strong competitive position within their respective industries and then seek those with a near-term catalyst to improve their fundamentals, company earnings or valuation. This approach enables us to selectively take advantage of valuation anomalies created by extreme swings in investor sentiment, while helping to deliver a more consistent pattern of performance to our clients.

Our research places a heavy emphasis on the ability of companies to generate free cash flow, as we believe this is the purest measure of corporate financial performance and is central to determining value in the small-cap and mid-cap market.

We also pay a lot of attention to the quality of management, as we believe good decisions in areas such as strategic direction and capital allocation greatly improve our odds of success over time.

A long-term investment horizon

Our research-led approach allows us to avoid short-term or macroeconomic “noise”. We are patient investors, whose discussions with company managements emphasise a long-term business strategy, as opposed to near-term operating results. We prefer to “let our winners run”, as long as fundamentals remain strong and our investment thesis remains intact. Indeed, our favourite companies are those that we don’t ever need to sell, except when their capitalisation becomes too large. Portfolio turnover is therefore relatively low, which further allows for the compounding of earnings growth and lower portfolio trading costs.

Highly diversifed portfolio

The fund is designed to deliver a core style-oriented portfolio of 150–200 stocks that are within the market cap range of the Russell 2500 Index at time of purchase.

Conviction in the investment thesis and the quality of the company’s business model determine the size of individual portfolio positions.

We maintain a blend of value and growth stocks, opportunistically purchasing emerging growth stocks when our research leads us to believe a company’s true growth potential is not fully appreciated by others in the marketplace, and purchasing value and core stocks when they are trading at attractive valuations.

Our bottom-up approach means we typically avoid making meaningful top-down, macroeconomic, or sector-level bets and as a result, holdings are broadly diversified among sectors and industries which helps to limit volatility.

Holdings	150-200
Position size range	Typically 0.15-2.5%
Benchmark*	Russell 2500 Net 30% Index
Cash level	Typically fully invested, max 10%
Expected turnover	Typically c. 40% p.a.
Sectors	Typically +/-5% absolute deviation from benchmark
Market cap	New purchases up to US $18bn

* The manager is not constrained by the fund’s benchmark, which is used for performance comparison purposes only.

Risks - The following risks are materially relevant to the fund:

Small and mid-cap risk – Small and mid-size company stock prices can be more volatile than stock prices of larger companies.

General fund risks

Equity risk – Equities can lose value rapidly for a variety of reasons and can remain at low prices indefinitely.

ESG and Sustainability risk – ESG and Sustainability risk may result in a material negative impact on the value of an investment and performance of the fund.

Geographic concentration risk – Geographic concentration risk may result in performance being more strongly affected by any social, political, economic, environmental or market conditions affecting those countries or regions in which the Fund's assets are concentrated.

Investment fund risk – Investing in funds involves certain risks an investor would not face if investing in markets directly.

Management risk – Management risk may result in potential conflicts of interest relating to the obligations of the investment manager.

Market risk – Market risk may subject the fund to experience losses caused by unexpected changes in a wide variety of factors.

Operational risk – Operational risk may cause losses as a result of incidents caused by people, systems, and/or processes.

Important information

The Fund is a sub-fund of the T. Rowe Price Funds SICAV, a Luxembourg investment company with variable capital which is registered with Commission de Surveillance du Secteur Financier and which qualifies as an undertaking for collective investment in transferable securities ("UCITS"). Full details of the objectives, investment policies and risks are located in the prospectus which is available with the key investor information documents (KIID) and/or key information document (KID) in English and in an official language of the jurisdictions in which the Funds are registered for public sale, together with the articles of incorporation and the annual and semi-annual reports (together "Fund Documents"). Any decision to invest should be made on the basis of the Fund Documents which are available free of charge from the local representative, local information/paying agent or from authorised distributors. They can also be found along with a summary of investor rights in English at www.troweprice.com. The Management Company reserves the right to terminate marketing arrangements.

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