



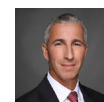
Why an All-Weather Approach Works Best for Euro Corporate Bonds

Aiming for outperformance through good and bad times matters.

June 2023

KEY INSIGHTS

- An all-weather solution, with the potential to deliver outperformance in different market conditions, is particularly attractive in the world of euro corporate bonds.
- The ability to target regular income without excessive price fluctuations is a valuable attribute amid today's uncertain market backdrop.
- High-conviction, long-term security selection, as well as keen awareness of downside risks and the flexibility to adapt as circumstances change are key features of our process.



David Stanley
*Portfolio Manager,
Euro Corporate Bond Fund*

Focusing on delivering outperformance in varying market conditions, whether credit spreads are rising or falling or if volatility is high, is an ideal way to approach euro corporate bonds, in our view. We think an all-weather approach will resonate with investors who view the asset class as a potential core allocation within their fixed income sleeve and aim for regular income without excessive price fluctuations.

In our two decades managing the T. Rowe Price Funds SICAV—Euro Corporate Bond Fund,¹ we have seen higher-beta² managers perform strongly in good times, when credit spreads

are falling, but then underperform when things turn bad. Investment-grade credit, by its nature, has potentially greater downside than upside risk.³ As such, we think it is essential to mitigate drawdowns by avoiding companies with poor or deteriorating creditworthiness.

We believe this approach works well over the long term but is also relevant to the current environment. The volatility in the banking sector in March, an especially challenging year for bonds in 2022 and the current uncertain market and macroeconomic outlook underline the importance of consistency and stability.

“We think an all-weather approach will resonate with investors who...aim for regular income without excessive price fluctuations.”

Past performance is not a reliable indicator of future performance.

¹ The fund is not constrained by the fund's benchmark, which is used for performance comparison purposes only.

² Beta is a measure of a portfolio's sensitivity to a market benchmark or index. A beta of one would mean the portfolio moves exactly in line with the index.

³ The value of a corporate bond could potentially fall to zero, or be significantly reduced or written down, in the event the issuer became insolvent or defaulted. The return is largely composed of a regular, usually fixed coupon or interest payment, and while we can also see return from changes in the market price, a corporate bond will be redeemed at a set, or par value, effectively limiting potential upside.

Performance Table

T. Rowe Price Funds SICAV—Euro Corporate Bond Fund

	Three Months	One Year	Annualised				
			Three Years	Five Years	Ten Years	Fifteen Years	Twenty Years
T. Rowe Price Funds SICAV—Euro Corporate Bond Fund—Class I (EUR)*	1.43%	-7.08%	-1.09%	-0.91%	1.29%	3.05%	2.92%
Bloomberg Euro-Aggregate: Corporates Bond Index EUR	1.75	-7.55	-1.60	-1.19	1.00	2.73	2.85
Value Added†	-0.32	0.47	0.51	0.28	0.29	0.32	0.07

Calendar Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
T. Rowe Price Funds SICAV—Euro Corporate Bond Fund—Class I (EUR)*	2.68%	8.01%	0.21%	4.88%	3.02%	-1.44%	6.95%	3.72%	-1.23%	-13.24%
Bloomberg Euro-Aggregate: Corporates Bond Index EUR	2.37	8.40	-0.56	4.73	2.41	-1.25	6.24	2.77	-0.97	-13.65
Value Added†	0.31	-0.39	0.77	0.15	0.61	-0.19	0.71	0.95	-0.26	0.41

Past performance is not a reliable indicator of future performance.

*Source for performance: T. Rowe Price as of 31 March 2023. Fund performance is calculated using the official net asset value with dividends reinvested, if any. The value of the investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the fund and the subscription currency, if different. Sales charges (up to a maximum of 5% for the A Class), taxes, and other locally applied costs have not been deducted, and, if applicable, they will reduce the performance figures. Where the base currency of the fund differs from the share class currency, exchange rate movements may affect returns.

† The Value Added row is shown as T. Rowe Price Funds SICAV—Euro Corporate Bond Fund—Class I (EUR) minus the benchmark in the previous row. Source for Bloomberg index data: Bloomberg Index Services Limited. Please see Additional Disclosures page for information about this Bloomberg information. The manager is not constrained by the fund's benchmark, which is used for performance comparison purposes only.

How Do We Pursue Outperformance in All Weathers?

Firstly, it is important to target higher gains than the market when credit spreads are tightening. High-conviction security selection, with a focus on picking the right companies and issues, is the main way we attempt to stay ahead when conditions are favourable.

We seek to generate an attractive yield in the portfolio but do this in a considered and balanced way, assessing carry opportunities relative to risk and volatility.

The yield on euro investment-grade corporate bonds is currently higher than it has been for more than a decade. There is also the opportunity for capital appreciation, particularly in issues with scope for credit spread tightening or with a generous premium at launch.

Intensive company-level research by our 18-strong team of dedicated euro investment-grade analysts helps us to identify the best opportunities, and we incorporate active views on rating, maturity, and seniority in our decisions. We also draw on support from in-house economists, sovereign analysts, quantitative analysts, a responsible investment team and traders.

It is vital to try and outperform through difficult times as well, however, by adapting and responding to changing market conditions.

There are four key rules for steering through choppy waters:

Know your cargo: Just as we back the companies in which we have the highest conviction, we also seek to avoid the weaker ones. This approach

Performance Regularity Matters

(Fig. 1) Our fund has outperformed in different environments

Over the Last 120 Months

OAS*



- **71 months** have witnessed credit spread tightening
 - Of which **43 months** have led to a portfolio return net of fees superior to the one of the index
- = a **61% success rate** in credit spread tightening environment[†]

OAS*



- **49 months** have witnessed credit spread widening
 - Of which **21 months** have led to a portfolio return net of fees superior to the one of the index
- = a **43% success rate** in credit spread widening environment[†]

As of 31 March 2023.

Past performance is not a reliable indicator of future performance.

*Option-adjusted spread.

[†] The active success rate is the percentage of rolling periods that a T. Rowe Price fund generated excess returns that were greater than zero, indicating that it outperformed its benchmark, over the last 10 years. Outperformance is calculated as T. Rowe Price Funds SICAV—Euro Corporate Bond Fund—Class I (EUR) minus the Bloomberg Euro Aggregate Corporate Index. A composite that outperformed its benchmark in more than 50% of all rolling periods in a given time window was deemed to have achieved a positive active success rate for that window. The manager is not constrained by the fund's benchmark, which is used for performance comparison purposes only.

Source for performance: T. Rowe Price. Fund performance is calculated using the official net asset value with dividends reinvested, if any. The value of the investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the fund and the subscription currency, if different. Sales charges (up to a maximum of 5% for the A Class), taxes, and other locally applied costs have not been deducted, and, if applicable, they will reduce the performance figures. Where the base currency of the fund differs from the share class currency, exchange rate movements may affect returns.

Source for Bloomberg index data: Bloomberg Index Services Limited. Please see Additional Disclosures page for information about this Bloomberg information.

will hopefully be beneficial when markets fall and should add value over time. Crucially, we determine how much pain we are willing to accept in each issue that we own, so we are ready to jettison names when needed or when we lose conviction. At the same time, we will firmly back positions where we are convinced of potential future success.

Distribute the weights correctly: The ability to manage idiosyncratic situations by distributing risk across the portfolio is an important factor at both a company level and a sector level. We maintain a high degree of diversification—holding 100 to 200 issuers at any point in time—carefully weighting positions at issue level based on conviction, rating, and liquidity profile. By maintaining a

portfolio that is not dominated by any one sector, geographic region, rating or issuer, alpha is driven by numerous factors to help keep the volatility of performance low. It means we have some built-in resilience for when markets turn.

When storms approach, increase the ballast: When there are signs of a storm coming, we seek to reduce risk by employing credit derivatives to cushion the portfolio at times of rapidly increasing volatility, when credit is likely to underperform. Our use of credit default swaps on individual issuers or at an index level, either as short positions or option structures, has added value over time and was particularly important in 2022.

Rely on a knowledgeable crew:

Portfolio Managers David Stanley and Howard Woodward have more than three decades of expertise each in the credit industry, including managing through numerous credit crises and liquidity squeezes. They are surrounded by a team of seasoned credit portfolio analysts based in the UK, the US and Asia.

Why an All-Weather Approach Is Important Now

The ability to see out choppy conditions looks increasingly important in a world facing numerous transitions and uncertainties and even, as some would say, a new economic regime.

Firstly, an era of historically low interest rates and bond yields appears to be over, following aggressive monetary tightening. While this creates a healthier income environment for bond investors, it also introduces scope for greater volatility and more challenging economic conditions. The safety net of highly supportive policy measures is gone, and companies will have to pay more to issue debt, squeezing balance sheets.

Recent failures among US regional banks demonstrate the risks that higher interest rates introduce. Aside from the negative effect on sentiment, this may hurt the economy as the banking sector tightens up on lending, possibly increasing the risk of a recession.

As economic conditions become harder, with the lagged effect of tightening starting to bite, there may be more losers, in and outside of banking, particularly if panic sets in again, although winners will emerge too.

Added to this is the question of inflation. This looks likely to moderate further from the eye-watering levels seen in 2022, but how much moderation will be enough to stop further interest rate rises is difficult to gauge. It is likely we will all have to adjust to higher rates of inflation overall than we have been used to over the past decade.

Finally, there is continued geopolitical uncertainty, particularly the ongoing war in Ukraine and the potential here for further destabilisation via energy supply disruption.

Performance Regularity Is Vital in a Changeable World

Taking all these factors together, there is considerable scope for financial markets to remain changeable and volatile. Discerning investment management will be key. Performance regularity, based on careful security selection, steady income and rigorous downside risk management could be essential for today's uncertain investment landscape.

Additional Disclosure

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Objective

To maximise the value of its shares through both growth in the value of and income from its investments.

Investment Process

The fund is actively managed and invests mainly in a diversified portfolio of corporate bonds that are denominated in euros. Although the fund does not have sustainable investment as an objective, the promotion of environmental and/or social characteristics is achieved through the fund's commitment to maintain at least 10% of the value of its portfolio invested in sustainable investments, as defined by the Sustainable Finance Disclosure Regulation. In addition to the environmental/social characteristics promoted, the fund also applies the investment manager's proprietary responsible screen (the T. Rowe Price Responsible Exclusion List). The fund may use derivatives for hedging, efficient portfolio management and investment purposes. The fund may also use derivatives to create synthetic short positions in debt securities and credit indices. For full investment objective and policy details, refer to the prospectus. The manager is not constrained by the fund's benchmark.

Risks—The following risks are materially relevant to the fund (refer to the prospectus for further details):

Contingent convertible bond—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.

Credit—Credit risk arises when an issuer's financial health deteriorates and/or it fails to fulfill its financial obligations to the fund.

Default—Default risk may occur if the issuers of certain bonds become unable or unwilling to make payments on their bonds.

Derivative—Derivatives may be used to create leverage, which could expose the fund to higher volatility and/or losses that are significantly greater than the cost of the derivative.

High yield bond—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—Interest rate risk is the potential for losses in fixed income investments as a result of unexpected changes in interest rates.

Liquidity—Liquidity risk may result in securities becoming hard to value or trade within a desired time frame at a fair price.

Sector concentration—Sector concentration risk may result in performance being more strongly affected by any business, industry, economic, financial or market conditions affecting a particular sector in which the fund's assets are concentrated.

Total return swap—Total return swap contracts may expose the fund to additional risks, including market, counterparty, and operational risks as well as risks linked to the use of collateral arrangements.

General Fund Risks

Counterparty—Counterparty risk may materialise if an entity with which the fund does business becomes unwilling or unable to meet its obligations to the fund.

Environmental, social, and governance (ESG) and sustainability—ESG and sustainability risk may result in a material negative impact on the value of an investment and performance of the fund.

Geographic concentration—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.

Hedging—Hedging measures involve costs and may work imperfectly, may not be feasible at times, or may fail completely.

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

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

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

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

INVEST WITH CONFIDENCESM

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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