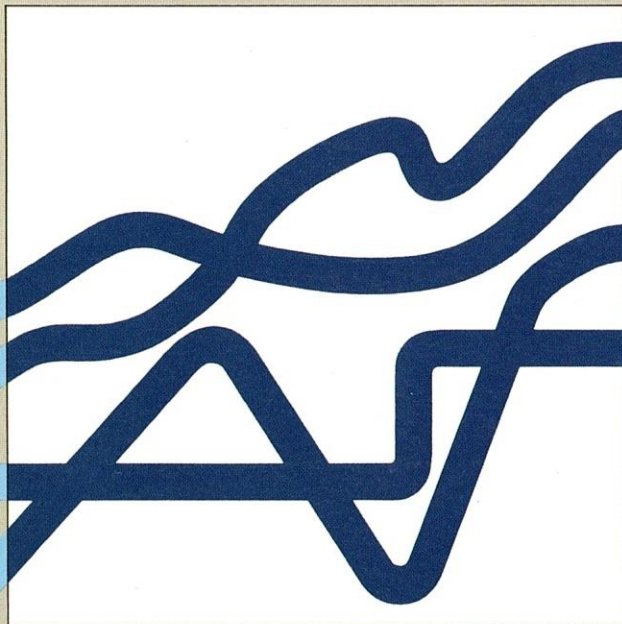


**T. ROWE PRICE
ASSOCIATES, INC.**



Fixed Income Management



*In today's volatile bond market,
T. Rowe Price professionals
focus on protection of principal
and maximum income return.*

Fixed Income Management

What we offer you

- More than forty years' experience
- Proven ability in managing fixed income portfolios
- \$1.5 billion in fixed income assets under management
- Dedicated staff of investment professionals

T. Rowe Price Associates opened its doors in Baltimore in the summer of 1937. Since then, we have remained committed to our primary corporate objective—to provide the best possible investment advice to our clients. Our advice was, and is, our *only* product. The management of client portfolios has always included debt securities,

and this background helps contribute to our effectiveness.

Why Fixed Income Management is a major factor at T. Rowe Price

In the past, the generally accepted management approach to fixed income investing was characterized by a buy and hold strategy—a purely passive approach which was justified by meager interest rates and the relative absence of volatility.

But in the late 1960s, high inflation levels, rising yields, and the stability a fixed income component brought to a portfolio in an uncertain equity market sparked a growth in this area. We developed a more aggressive approach. Since then client interest has grown—especially after the passage of ERISA—and so has our staff of fixed income specialists.

We would like you to understand our confidence in the firm's ability to respond to your needs in today's uncertain investment environment.

The Fixed Income Division

In 1971, we formed the T. Rowe Price Fixed Income Management Group to respond to the growing interest among investors in debt securities. Today, our Fixed Income Division manages fixed income portfolios, as well as the debt portion of balanced portfolios. Ten bond professionals concentrate on protecting principal and maximizing income return in an increasingly complex debt market. We manage over \$1.5 billion in debt securities—both in intermediate- and long-term bonds, as well as money market obligations. Our clients include *Fortune 100* corporations, moderate-sized businesses, major universities, foundations and endowments.



T. Rowe Price fixed income specialists regularly review client investments in an effort to match potential rewards and risks with portfolio objectives.

Fighting Inflation With "Early Recapture"

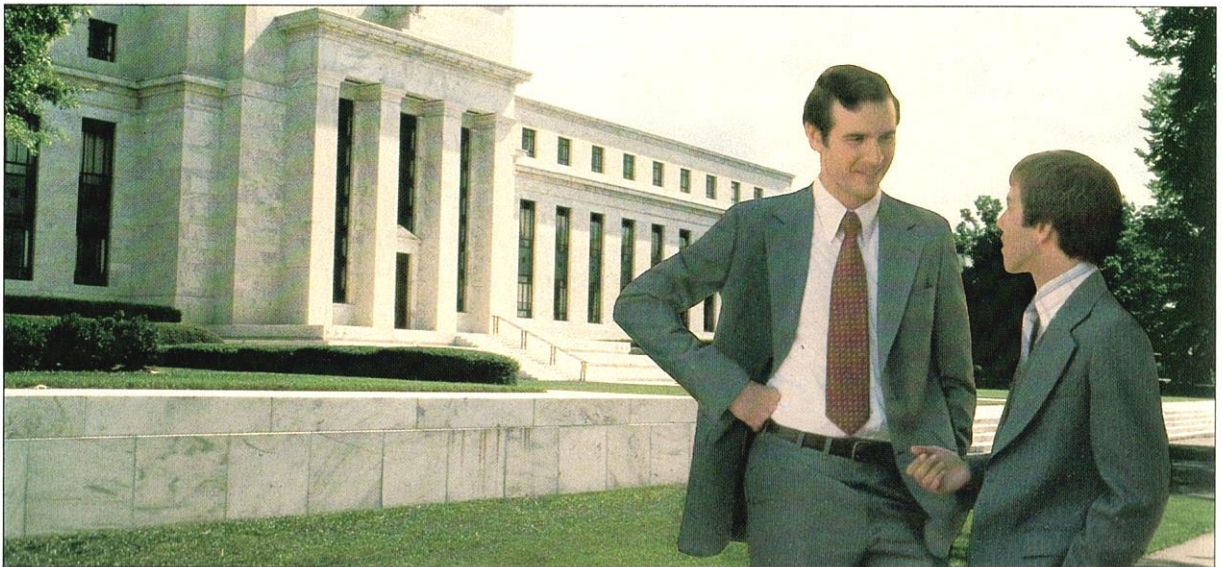
We are living with inflation rates now that would have been unthinkable just a decade ago. Our aim is that client dollars invested today are not devalued in purchasing power when they are returned. We rely on an investment approach which distinguishes the T. Rowe Price fixed income effort from many other fixed income managers. We call our approach *early recapture*.

Early recapture means that we strive to *recapture* the investor's return dollars, both income and principal, as early as possible in the investment cycle in order to have the option of reinvesting them for the higher total returns that may be anticipated. This may mean concentrating on high-coupon issues, maximizing current income and reinvesting it at higher rates with intermediate maturities, or shortening maturities to protect principal. In this way, we seek to keep the money from becoming sad-

dled with an uncertain future. A portfolio of bonds purchased in the 1950s with coupons averaging 5 percent is of little comfort in meeting today's needs—or tomorrow's.

The approach sounds simple, but the method behind it is actually quite complex. It requires a detailed study of all elements of fixed income returns to properly choose among sectors, achieve portfolio diversification, assure the quality of the individual issues, and hedge against possible errors in forecasting.

Early recapture is a well-defined investment approach at T. Rowe Price Associates, but it must be *more* than that—it must be flexible enough to respond to structural changes in the economy. While this approach is most appropriate in periods of spiraling inflation, we are well aware of the possibility of an easing in the inflationary trend—and are prepared to make adjustments in response to future trends.



Our analysts conduct their own in-depth research on the latest developments affecting fixed income returns by monitoring the output of such government agencies as the Federal Reserve.

How T. Rowe Price Research Shapes Fixed Income Investment Decisions

Sound investment decisions must rest on a firm foundation—and that foundation is good research. At T. Rowe Price Associates, our staff of in-house analysts is not dependent on outside sources for research. However, we do have access to consulting firms, government experts, market analysts and others. We supplement our efforts and challenge our judgments with the input from these specialists.

Our fixed income research effort can be divided into three major areas:

1. Economic analysis

We begin by assessing interest rate trends, which result from supply and demand in the credit market. Since overall economic activity dictates the demand for debt, we attempt to predict the strength and direction of the economy three to five years ahead. Inflationary trends are also anticipated and factored into the prediction.

Business cycle analysis, and careful monitoring of money supply variations and other money aggregates, help us determine the short-term direction of money market rates. We also carefully track and assess political and international developments that can affect market confidence, including Federal Reserve policy and Treasury finance requirements, the strength of leading currencies, investor demand and tax reform proposals.

2. Credit analysis

Rating services usually review a company's creditworthiness only when new debt is to be issued. We insist that companies be screened by our credit research analysts for creditworthiness before our Fixed Income Division makes any commitments in their debt obligations. This often serves as an early warning of credit deterioration, while also uncovering likely upgrades and potentially attractive purchases. We appraise important Canadian and major international

entities and devote a major effort to the analysis of domestic and international banks and other short-term debt issuers.

3. Value analysis

Another important component of our research effort is yield spread analysis, in which we evaluate whole market sectors—Treasury issues, governmental agency issues, utilities, industrials and specific industries. Often, we are able to pinpoint exceptional values in underpriced areas and uncover overpriced sectors that should be sold. Our analysis also reveals overpricing and underpricing—yield spread differentials—between specific issues. This often provides “swap” or arbitrage opportunities which improve portfolio yield and quality.



Optimization is one of many computer-based services which enhance the capabilities of our Fixed Income Division.

How We Manage Your Portfolio

Sound decisions based on logical approaches

The purpose of fixed income management—the purpose of any portfolio management—should be to balance the potential rewards and risks properly, in light of the client's investment objectives.

In structuring fixed income portfolios, we believe in the value of a logical and disciplined approach. Only a step-by-step approach using proven quantitative techniques will project rates of return and levels of risk with any degree of accuracy. Once these projections are determined, we can match them with your objectives and develop a portfolio tailored to your individual needs—ranging from defensive to aggressive.

One very important factor which we consider in structuring portfolios is the relationship between the fixed income portion of the investment mix and the portfolio as a whole—including risk tolerances, cash flow needs and special restrictions. Only after your particular needs are identified and discussed do we develop a written investment program. It is expected that this program will be reviewed with you at least once a year and will serve as a blueprint for our fixed income investment experts in managing your portfolio.

This logical progression—from identifying your objectives to shaping a written investment program—means an emphasis on forward return projections, rather than the traditional historical yield analysis. We have found forward return projections to be more realistic in today's market than historical yields. Conventional wisdom might suggest the purchase of a Treasury bill, for example, but if our projections show heavy government financings ahead, a switch from industrials to Treasuries might not be justified.

Another valuable tool we have learned

to rely on is interest rate forecasts derived by evaluating short- and long-term supply and demand in credit markets. For even greater precision, we consider a wide range of possibilities—from the most optimistic, to the most probable, to the most pessimistic. We assign probabilities and various time frames in each case, then re-examine our assumptions monthly.

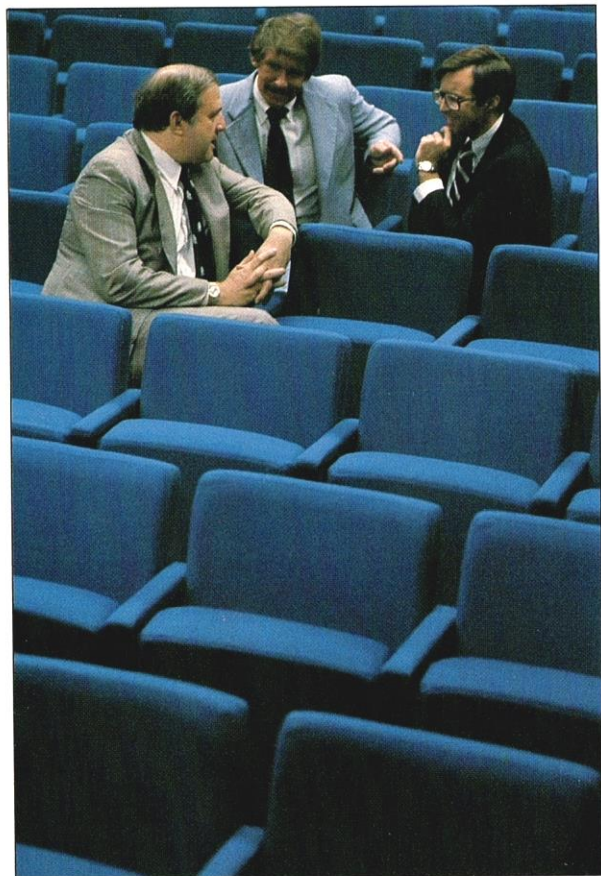
All in all, we base our larger decisions in managing a portfolio upon a series of smaller ones, each determined by quantitative methods and our understanding of your investment objectives.

Reliable data from computer hardware

Computer capabilities play an important role in the management of fixed income portfolios by allowing us to predict market changes with greater accuracy. Looking ahead is a difficult job. Computer software can make the job more manageable by simulating the rate of return implications or predicting coupon income and forecasted value of principal. We have the capability to apply the same methods to an unmanaged portfolio—such as a bond index.

We use computers to generate optimization schedules which project the behavior of different market sections, industries, quality grades, coupons and maturities under various interest rate assumptions. With this information, we are able to rank different types of issues in order of attractiveness.

Next, we use the rankings to determine target portfolio distributions—the degree of concentration we would like to achieve in long, short and intermediate maturities, high- and low-grade credits, and high current or discount coupons. Because we grade our interest rate assumptions from the



Frequent client meetings help portfolio managers understand each client's investment requirements and respond to specific needs.

optimistic to the pessimistic, we seek to structure your portfolio with the degree of risk you wish to assume. Computer programs help us move toward the target portfolio which reflects your objectives.

Your portfolio manager and you

While our investment process is structured and disciplined, it is not mechanical. The judgment of the individual portfolio manager—working with the client and the available resources—is the single most vital element in the investment process. To be sure, our portfolio managers call upon researchers, traders and others for information. But, their understanding of your portfolio's objectives and tolerances is the essence of the T. Rowe Price approach to portfolio management.

Our fixed income professional staff is of the highest caliber. Most have achieved M.B.A.s and other advanced degrees. Over half have been with T. Rowe Price Associates for at least six years. In addition, our investment managers attend major industry seminars, university programs, and in-house lectures by outside professionals. Our goal is to ensure that our experts are up-to-date on all the diverse areas relating to fixed income investment management. The academic and professional background of our specialists assures our clients that a knowledgeable, concerned investment staff is continuously at work in their behalf.

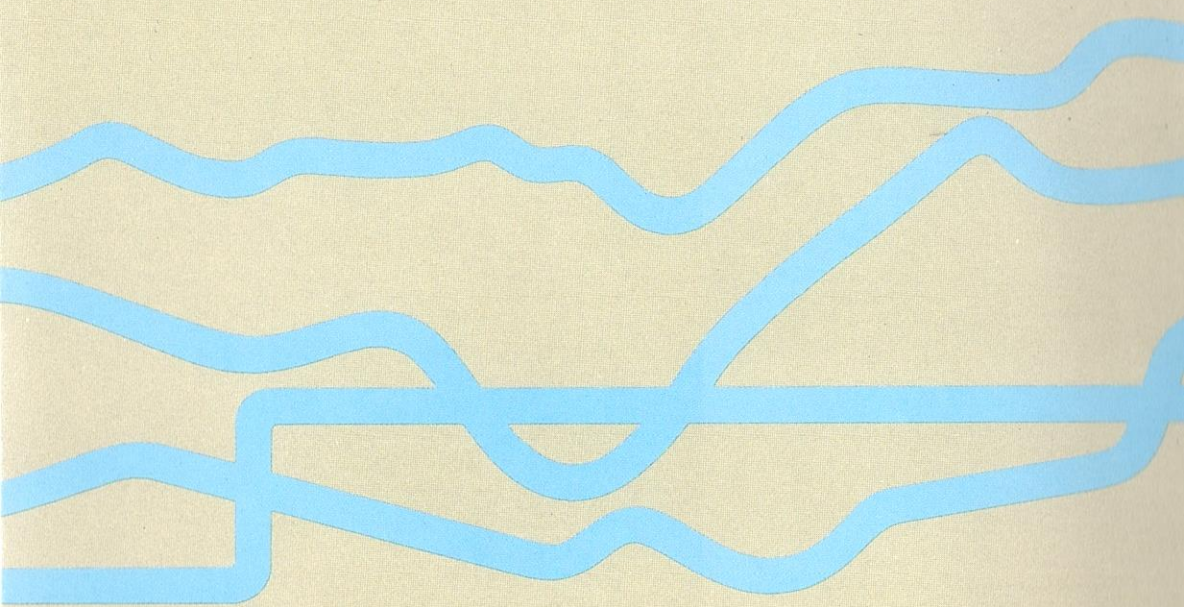
In short, T. Rowe Price Associates is its people. Talented professionals are our greatest asset. We are proud of our staff of first-rate fixed income specialists who are dedicated to serving our clients' needs. We hope to have the opportunity to personally demonstrate to you the reasons for our pride.

For further information, we invite you to call or write:

T. Rowe Price Associates, Inc.

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Interest rate projections are an essential element of T. Rowe Price Associates' approach to fixed income management. The graphic design on this cover is an artist's interpretation of an interest rate chart.



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