EUROPEAN HIGH YIELD BOND STRATEGY

Using intensive credit research to unearth attractive income opportunities

European high yield bonds offer a high level of regional diversification and provide investors with opportunities to exploit market inefficiencies.

Advantages of European high yield debt

1. Fast-evolving opportunity set
2. Historically less volatile than US high yield
3. Good diversification potential
4. Inefficiencies and information gaps can potentially reward active investors

Inefficiencies can create opportunity

Persistent pricing anomalies can be a reliable source of added value (alpha) for active investors with expertise in security selection. The chart shows the yields at which B rated new bond issues came to market in European high yield from 2017 to 2021 compared with the average yield on the single B index. Bonds with the same credit agency risk rating have been issued at yields ranging from around 2% to 10%, reflecting the market’s views on their relative riskiness. Wide price dispersion potentially makes it more rewarding for active investors to identify future winners and avoid the losers.

A fast-evolving asset class

The European high yield market trebled in size between 2012 and 2020, to around €600 billion—roughly a third of the size of the US high yield market. In the past decade, European companies—previously reliant on bank financing—have relied more on public debt markets for funding as deleveraging and tight credit conditions slowed bank lending. Issuers have also taken advantage of low interest rates to extend their bond maturities, and this has also helped boost new issue volumes.

With an investible universe spanning about 650 securities issued by 350 different companies, European high yield offers a high level of regional diversification and provides investors with opportunities to exploit market inefficiencies between countries.

Volatility in the European high yield market has historically been lower than that in the US. One reason is the US’s bigger tilt towards energy names, whereas Europe is more dominated by financials. It is significantly harder to file for bankruptcy in Europe than in the US, which may contribute to lower default rates and greater market cycle resilience.

Highly dispersed market: Euro B rated bonds

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The goal of fundamental credit research is to identify those companies positioned to improve their credit profile, run by astute management teams.

Mike Della Vedova | Portfolio Manager
Why T. Rowe Price for European high yield?

### Responsible investing

Environmental, social and ethical considerations are integrated into our process at the qualitative and quantitative levels, both to manage risks and identify opportunities. Fixed income research analysts regularly collaborate with their counterparts on the Responsible Investing team to test and develop investment ideas.

Our proprietary Responsible Investing Indicator Model (RIIM) complements traditional investment analysis by leveraging data sets, such as ESG performance data, ESG targets and ESG incident/controversy data, that are outside the wheelhouse of standard financial analysis. RIIM helps to quantify the environmental, social and ethical profiles of potential investments so that the analyst or portfolio manager can better balance an ESG factor within their traditional analysis.

We apply a proprietary exclusion list that aligns with our clients’ most common ESG concerns, including controversial and assault-style weapons, coal, tobacco, gambling and adult entertainment and conduct-based criteria.1

### Culture of collaboration

Portfolio Manager Mike Della Vedova is supported by 24 global high yield analysts, 10 ESG analysts, 8 supporting high yield portfolio managers, 29 other fixed income analysts and 245 equity analysts. Collaboration is at the heart of our research culture. Proactive sharing of research ideas across and among our debt, equity and Responsible Investing teams allows for more comprehensive investment insights in less transparent markets. This gives us greater conviction and patience in our (sometimes contrarian) views, and we believe it helps mitigate risk more efficiently. Our emerging market debt and equity analysts routinely travel together on research trips.

### Global platform and perspective

Our active investment decisions are backed by one of the industry’s largest and most experienced buy-side global research platforms. Local analysts operate in the world’s major economies, working in collaboration with our global network of specialists across all industries and major asset classes to find the best investment ideas.

Our analysts go beyond the numbers, getting out into the field to see firsthand how local economies and companies are performing today and, more importantly, to make informed and responsible judgments about how we think they’ll perform in the future.

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### A pioneer in high yield

We have been investing in European high yield since 2002, but our high yield roots go much deeper than that. T. Rowe Price has been managing fixed income since 1971—a 50-year track record—and has been investing in high yield since the infancy of the asset class. We launched our first high yield strategy in 1984.

Our European high yield philosophy is built on the same approach that has been applied to managing high yield assets for more than of 35 years.

### Risks

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

**Credit risk** – a bond or money market security could lose value if the issuer’s financial health deteriorates. **Default risk** – the issuers of certain bonds could become unable to make payments on their bonds. **Derivatives risk** – derivatives may result in losses that are significantly greater than the cost of the derivative. **Emerging markets risk** – emerging markets are less established than developed markets and therefore involve higher risks. **High yield bond risk** – a bond or debt security rated below BBB- by Standard & Poor’s or an equivalent rating, also termed ‘below investment grade’, is generally subject to higher yields but to greater risks too.

**Interest rate risk** – when interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality. **Liquidity risk** – any security could become hard to value or to sell at a desired time and price. **Sector concentration risk** – the performance of a fund that invests a large portion of its assets in a particular economic sector (or, for bond funds, a particular market segment), will be more strongly affected by events affecting that sector or segment of the fixed income market. **Total return swap risk** – 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.

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1 The exclusion list specifically applies to the SICAV, but can be applied to separate accounts according to client preference.
General fund risks – to be read in conjunction with the fund-specific risks above. Market risk – tMarket risk may subject the fund to experience losses caused by unexpected changes in a wide variety of factors. Counterparty risk – an entity with which the fund transacts may not meet its obligations to the fund. 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 – to the extent that a fund invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area. Hedging risk – a fund’s attempts to reduce or eliminate certain risks through hedging may not work as intended. Investment risk – investing in funds involves certain risks an investor would not face if investing in markets directly. Management risk – the investment manager or its designees may at times find their obligations to a fund to be in conflict with their obligations to other investment.

Important information

The Funds are sub-funds 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 in English and/or 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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T. Rowe Price at a glance

- Founded in 1937
- US$1,551.8 billion AUM
- 908 investment professionals worldwide
- 386 research analysts
- Offices in 17 markets, research analysts in 9 locations
- Clients in 53 countries

T. Rowe Price European High Yield Bond Strategy

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<thead>
<tr>
<th>Portfolio manager</th>
<th>Mike Della Vedova</th>
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<tbody>
<tr>
<td>Strategy inception date</td>
<td>October 2011</td>
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<tr>
<td>Strategy AUM</td>
<td>€732.9 million</td>
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<tr>
<td>Comparator benchmark</td>
<td>ICE BofA European Curr. HY Constr. Excl. Subord. Financials Index Hedged to EUR</td>
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T. Rowe Price Funds SICAV–Responsible European High Yield Bond Fund (actively managed)

| Fund size | €205.4 million |
| Launch date | September 2011 |
| Base currency | EUR |
| ISIN (Class I) | LU0596125814 |
| Ongoing charges (Class I) | 0.70% per annum |

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

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