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Cutting a Path
T. Rowe Price's Saurabh Sud goes where the credit opportunities take him.

UNDISCOVERED MANAGER

Laura Lallos

Undiscovered Manager is a regular profile of a noteworthy strategy that hasn't been rated by Morningstar Research Services' analysts.

Guided by portfolio manager Saurabh Sud, T. Rowe Price Dynamic Credit goes its own way. The actively managed bond strategy has few constraints: Sud can invest across the credit spectrum. The goal is to take advantage of pricing dislocations wherever they may be found, be it in investment-grade, high yield, emerging markets, bank loans, convertibles, and so on.

These can be volatile investments, but Sud is also free to pursue another goal: "We are trying to clip the tails of the distribution in credit investing," he says, "through active shorting and macro hedging."

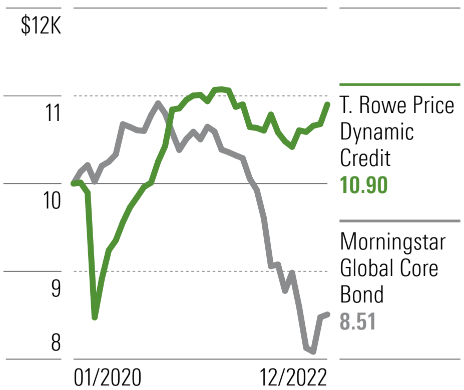
The aim is to give shareholders a smoother ride than a typical multisector bond strategy would. Sud calls this strategy "multi-asset credit in the liquid alts space." Morningstar puts it in the nontraditional bond Morningstar Category, which encompasses a variety of strategies that diverge from conventional bond-fund practice.

The strategy's performance in 2022 shows the advantages of the approach: The open-end mutual fund's institutional shares, T. Rowe Price Dynamic Credit RPELX, lost only 1 basis point, compared with 6.3% for its category average, 9.9%

Saurabh Sud, portfolio manager of T. Rowe Price Dynamic Credit.

T. Rowe Price Dynamic Credit RPELX

Growth of $10K



Morningstar Category	Nontraditional Bond
Morningstar Rating	★★★★★
Expense Ratio (%)	0.56

Source: Morningstar Direct. Data as of Dec. 31, 2022.

for the average multisector bond fund, and 17.4% for the Morningstar Global Core Bond Index.

"Most assets in credit with a long credit bias are down double digits," Sud notes, "but we captured some active short alpha."

Liquid alternative strategies should be approached with caution. Complicated processes don't always perform as expected, and they often come with a hefty fee. In this case, a T. Rowe Price pedigree ensures relatively low expenses—0.56% for the fund's institutional shares. That's reasonable for any actively managed fixed-income fund, and particularly so for a nontraditional bond fund with a relatively small asset base.

Then there's the backing of T. Rowe Price's reputation and resources. While the firm made its name as an equity shop, its fixed-income assets under management had grown to nearly $260 billion as of September. Most of its fixed-income funds that are rated by Morningstar's analysts are Morningstar Medalists. While Sud is the sole named manager on the Dynamic Credit strategy, he is an active part of a bigger research team that includes managers and analysts from across T. Rowe Price's fixed-income shop.

"You need expertise across all these subsectors," he says. "To be successful, you need a team-oriented approach."

That broad perspective had led Sud to take a defensive stance going into 2022 that buffered Dynamic Credit from the worst. "We have a global team that is looking at global opportunities," he says. In late 2021, the team observed that the Czech central bank and other more "orthodox" institutions were starting to respond aggressively to inflation—and anticipated a similar response in the U.S.

The Road to T. Rowe

Sud didn't take a conventional path to asset management. He received an electrical engineering degree at the Indian Institute of Technology in Delhi. "I had an analytical mind, but unfortunately, I don't think engineering was my calling," he says.

He gave up his first engineering job when hired by Lehman Brothers, which was setting up an offshore unit in Mumbai in 2006. "I had to tell my parents that I was going to take a 30% pay cut to join this financial firm that they'd never heard about," he laughs. "And a few years later, no one heard about it anymore!" But his job pricing equity exotic derivatives set him on his current path.

Sud moved on to Deutsche Bank in 2008, working on rates trading and structuring. "That was when I started reading Bill Gross' outlook every month," he says. He decided to pursue an MBA and explore the U.S. markets. While at Columbia Business School, he did a summer internship at Gross' Pimco—which he was surprised to find was a six-hour flight away in Newport Beach, California. "I thought that everything 'Wall Street' was in New York City!"

Sud returned to Pimco after graduation in 2012 and remained until early 2018, working on U.S. and emerging-markets corporate credit. "I was learning and getting mentored by some of the best minds in the industry," he says.

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The only drawback was that his wife was based in Washington, D.C., where she is a senior economist at the International Finance Corp. arm of the World Bank. She had decided to relocate when their first child was born, when Sud got a call from a headhunter. He normally ignored such inquiries, but this one was about a job in Baltimore, a reasonable commute from D.C.

"I prioritize family life," says Sud. "And at the same time, I was excited to do something new." The opportunity was to launch a new credit product for T. Rowe Price. "It was going to be a great learning experience for me from a business standpoint, developing a product, and it was an opportunity to get out of the shadows of the people I was working with and go out on my own."

Today, the family is settled in the Capitol Hill neighborhood of D.C., with two children and a third on the way. "My one condition when we moved was that we buy a place where I can run to the Capitol and back," Sud says. "I can do a loop of about three miles, which is good enough to clear my mind."

He also carves out time for squash and a boxing class each week, and weekends bring family bike rides along the Anacostia River. "My evenings and weekends are busier than my daytime, I would say," Sud laughs, "but it's a lot of fun."

Sum of Many Parts

While he leaves plenty of room for family time, Sud's workday often starts as early as 5:30. His charge is one of a small suite of Dynamic strategies, relatively new entries in T. Rowe's fixed-income lineup. His boss, Arif Husain, runs Dynamic Global Bond RPIEX, which aims to get 70% to 80% of its performance from rates. Sud, meanwhile, aims for 70% to 80% of performance from credit selection and sector rotation.

Despite that difference, their shared research approach allows them to often make the same moves, though not necessarily on the same scale. "Earlier in 2022, Dynamic Global Bond was shorting German rates, and I implemented some similar trades," Sud says. "Likewise, when I have a high-conviction credit short idea that I know would be a risk diversifier from their perspective, I will pitch it to them. Wherever we see best ideas, we come together."

Sud is also part of T. Rowe's sector strategy advisory group of sector specialists and quantitative analysts, which identifies credit opportunities, as well as the multi-asset credit group, which synthesizes findings into actionable output for the firm's global multi-asset portfolio managers and clients. "I'm part of the debate going into the discussion," he says, "and finalizing it, then publishing it for platform products and clients, and then I'm using this output [for the Dynamic Credit strategy]."

Sud chooses carefully for Dynamic Credit, holding only 100 to 200 names in the portfolio at any time, which is relatively concentrated for a fixed-income fund. He's not beholden to a benchmark when building the portfolio, and he aims to achieve attractive returns in a variety of market environments. His return target over a full credit cycle is "cash plus three to five"—to outperform the three-month T-bill by 300 to 500 basis points. Today, that would be 7% to 9%.

"Given that this is an opportunistic, flexible, high-conviction product where there's no benchmark, capacity is a concern," Sud says. While the mutual fund had less than $50 million in assets between its two share classes as of September, the strategy includes institutional accounts and is a sleeve in other T. Rowe Price funds, for a total of about $75 million. Sud figures his process would be impeded at around $5 billion under management under today's conditions.

Multifaceted Diversification

Since its inception in January 2019, the strategy's performance has been strong. Sud sets out to deliver decent returns without undue credit and duration risk and has done so to date. The fund's institutional shares are up a cumulative 16.4% through 2022 compared with 3.6% for the nontraditional bond-fund category, 4.6% for the average multisector bond fund, and negative 9.9% for the Global Core Bond index. Its three-year Sharpe ratio compared with those benchmarks is higher, as well. In accelerated stock selloff periods, the strategy has outperformed both high-yield and emerging-markets bonds (which tend to be more highly correlated to equities than investment-grade bonds)—and in 2022's stock selloffs, it outperformed U.S. investment-grade bonds, too.

That said, this strategy isn't a stand-alone fixed-income investment. "It needs to be thought of as complementary to benchmark credit allocations," Sud says. "Because there is an environment, when credit spreads tighten and interest rates rally, when benchmarks will look a lot better than us."

What investors can count on is diversification. Dynamic Credit's correlation to the Bloomberg U.S. Aggregate Bond Index has been quite low, and it has also had low correlation to high-yield bonds, emerging-markets debt, and equities. According to T. Rowe's performance attribution analysis, the fund's long-credit positions have delivered positive returns since inception and so have the relative value and credit shorts and Sud's macro and tactical hedging.

Shorts and hedging can clip returns when bond markets rally. However, they've cushioned the downside even in times when both equities and fixed income have plunged together—such as the COVID-19 crash in early 2020 and much of 2022.

Despite the fund's strong showing as interest rates rose in 2022, it shouldn't be counted on to play the same role in a portfolio that short-term bonds would. While the strategy has been short rates in recent years, Sud says that "we're going to explore the long side when the opportunity presents itself, when inflation has peaked."

But shareholders can count on Sud to actively focus on dampening volatility. "If we clip the downside, then capture the upside," he says, "our long-term returns will look a lot better than passive alternatives." If past is prologue, T. Rowe Price Dynamic Credit is on track to deliver. M

Laura Lallos is managing editor of *Morningstar* magazine.

Photography by Matt Roth.

EXPLANATORY NOTES—ARTICLE REPRINT

Morningstar, "T. Rowe Portfolio Manager Invests Across the Credit Spectrum,"
February 3, 2023

When considering mutual funds, investors should look beyond historical performance. They should consider factors such as the fund's investment objective, the types of securities in which it invests, and its level of risk compared with other types of investments. There are inherent risks associated with investing, including possible loss of principal.

The views and opinions expressed in the article are those of the interviewee at the time of the interview and are subject to change without notice.

Average annual total returns as of 12/31/22:

	1 Year	3 Years	5 Years	10 Years	Gross Expense Ratio[1]	Net Expense Ratio[1]
T. Rowe Price Dynamic Credit Fund - I Class	-0.01%	2.92%	N/A	N/A	**1.01%**	**0.56%**
ICE BofA US 3-Month Treasury Bill Index	1.47	0.73	1.27%	N/A		
T. Rowe Price Dynamic Global Bond Fund	3.60%	4.29%	2.65%	N/A	**0.70%**	**0.70%**
ICE BofA US 3-Month Treasury Bill Index	1.47	0.73	1.27%	N/A		

[1]As of the most recent prospectus.

Current performance may be higher or lower than the quoted past performance, which cannot guarantee future results. Share price, principal value, and return will vary, and you may have a gain or loss when you sell your shares. To obtain the most recent month-end performance, please visit our website or contact a T. Rowe Price representative at 1-877-804-2315. The average annual total return figures include changes in principal value, reinvested dividends, and capital gain distributions.

Effective 1 May 2021, the benchmark for the funds changed to ICE BOA ML 3-month T bill index. Prior to this change, the benchmark was the 3 Month Libor in USD. The fund(s) may have other share classes available that offer different investment minimums and fees. See the prospectus for details.

The Dynamic Credit Fund I-Class operates under a contractual operating expense limitation that expires on April 30, 2023.

Fixed income securities are subject to interest-rate, credit, liquidity, call, and default risks.

Derivatives may be more volatile than other types of investments and risks include currency, leverage, liquidity, index, pricing, and counterparty. A funds use of derivatives may expose it to additional volatility in comparison to investing directly in bonds and other debt securities.

Short sales are speculative transactions although are primarily used as part of overall portfolio volatility management.

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Dynamic Global Bond Fund is “nondiversified” so share price can be expected to fluctuate more than that of “diversified” funds.

Active investing may have higher costs than passive investing and may underperform the broad market or passive peers with similar objectives.

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