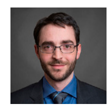
Can an Active All-Cap Approach Consistently Add Value Over Time?

And without a significant increase in risk?

October 2023

KEY INSIGHTS

- A criticism sometimes leveled at active management is that many strategies struggle to consistently deliver alpha across changing market conditions.
- We consider whether active stock picking, with the flexibility to invest across the full market cap spectrum, can consistently add value over time.
- Importantly, is it possible to deliver on this ambition of consistent added value without also taking on significant additional risk?



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One of the truisms of investing is that financial markets are constantly changing, continuously impacted by new information and rapidly evolving dynamics. Indeed, one of the criticisms sometimes leveled at active management is that many strategies struggle to consistently deliver alpha across various market environments. With this in mind, we consider what it means to be a high-conviction active manager and whether fundamental stock selection across the market capitalization spectrum can consistently deliver alpha generation across varying market and economic conditions.

All-Cap Remit Provides an Expansive Opportunity Set

Following a bull market run that lasted more than a decade, the U.S. equity market landscape has been much more volatile and uncertain over the past two years. This is where an actively managed all-cap strategy can be beneficial, providing an expansive opportunity set in which to find quality, well-managed businesses capable of generating alpha.

Successful navigation of different market environments is exactly what an all-cap strategy is designed to do, providing the flexibility to invest in companies of any size beyond the well-known and heavily invested large companies, and across the style spectrum, from high-growth to deep-value names. The ability to quickly adapt to new economic cycles and changing market dynamics is central to potentially delivering more consistent performance outcomes over time for investors.

Delivering Alpha Through Various Market Conditions

The T. Rowe Price US All-Cap Opportunities Equity Strategy aims to deliver on this ambition by generating alpha through various market conditions. The portfolio manager fully utilizes this

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all-cap flexibility by applying a unique stock-picking framework that centers on four key “pillars”: business quality, earnings expectations relative to the market, whether company fundamentals are improving or declining, and valuation. Each of these pillars is multifaceted, and rarely do all point in the same direction; rather, they are intended as a flexible framework to ensure that a wide variety of ideas are considered.

The framework is key in filtering the potential universe, and, importantly, it also helps to focus selection decisions on the fundamental truth that stock prices are ultimately a function of supply and demand over the short to medium term. When there are more incremental reasons for investors to want to buy a stock (i.e., it is in higher demand) and fewer incremental reasons to sell (i.e., supply it back to the market), then prices must find a higher equilibrium point.

Consistent good performance outcomes that the strategy strives for ultimately stem from the fact that the supply and demand framework can be applied in any market environment and helps to avoid becoming overexposed to either growth or value styles or any specific sectors. By keeping style/sector bets to a minimum to avoid potential blowups, we help ensure that active stock selection utilizing the full market cap spectrum remains the principal driver of performance over time.

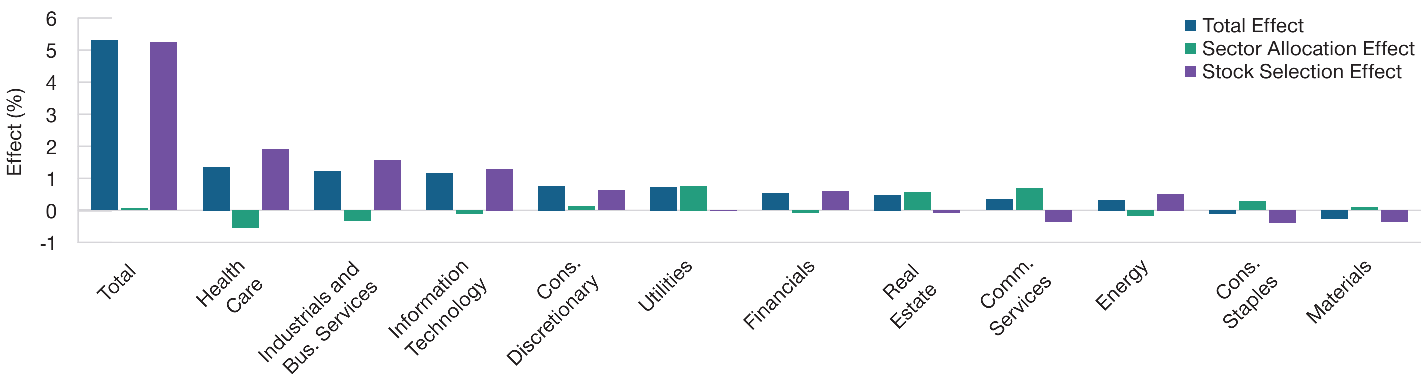
If we look at the one year performance attribution for the representative portfolio in the US All-Cap Opportunities Equity Strategy, (Fig. 1), the data indicates that:

(1) positive stock selection accounted for almost 100% of the portfolio’s benchmark outperformance;

(2) the portfolio was broadly exposed to 10 of 11 market sectors (zero or near zero exposure to utilities), with no significant active exposure in any one sector; and

Stock Selection Drove Portfolio Outcomes

(Fig. 1) T. Rowe Price US All-Cap Opportunities Equity Representative Portfolio vs. Russell 3000 Index attribution analysis



Past performance is not a reliable indicator of future performance.

As of September 30, 2023. For the one year period ending September 30, 2023.

Attribution analysis represents the total portfolio as calculated by the FactSet attribution model and is inclusive of other assets. Non-equity positions are excluded from the structure shown. Allocation and selection effects provide insight into the underlying securities and which factors impacted the portfolio’s excess return relative to the benchmark shown. Performance, gross of fees, for each security is obtained in the local currency and, if necessary, is converted to U.S. Dollars using an exchange rate determined by an independent third party. Figures are shown with gross dividends reinvested.

T. Rowe Price uses the current MSCI/S&P Global Industry Classification Standard (GICS) for sector and industry reporting. Please see Additional Disclosures page for information about this Global Industry Classification Standard (GICS) information.

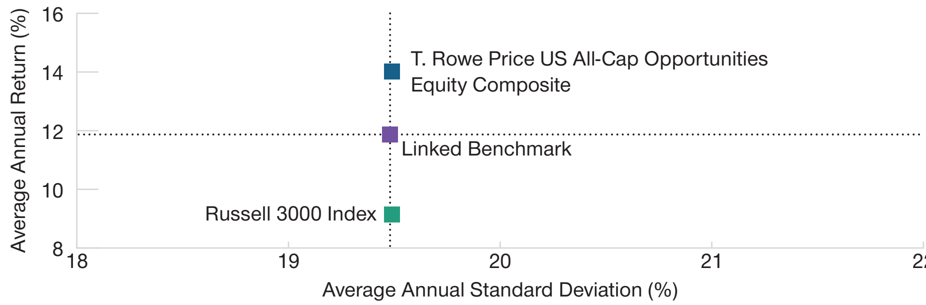
Sources: Financial data and analytics provider FactSet. Copyright 2023 FactSet. All Rights Reserved. MSCI/S&P GICS Sectors; Analysis by T. Rowe Price.

The representative portfolio is an account in the composite we believe most closely reflects current portfolio management style for the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio shown may differ from those of other accounts in the strategy. Please see the GIPS® Composite Report for additional information on the composite.

Source for Russell Index Data: London Stock Exchange Group plc and its group undertakings (collectively, the “LSE Group”). Please see Additional Disclosures page for information about this FTSE Russell information.

Outperformance Need Not Mean an Increase in Risk

(Fig. 2) Risk vs. Return Analysis: T. Rowe Price US All-Cap Opportunities Equity Composite vs. Linked Benchmark



Past performance is not a reliable indicator of future performance.
See the [PERFORMANCE] section for the 1-, 5-,10-year and since manager inception annualized net of fees returns for the Composite as of September 30, 2023.
Five years ended September 30, 2023. **The 5-year average annual return for the composite as of September 30, 2023, net of fees was 13.40%.**
Figures are calculated using monthly data and are gross of fees. Returns would have been lower as a result of the deduction of applicable fees.
Effective 1 March 2021, the benchmark for the US All-Cap Opportunities Equity Composite changed to the Russell 3000 Index. Prior to this change, the benchmark was the Russell 1000 Growth Index. Historical benchmark representations have not been restated.
Index returns shown with gross dividends reinvested.
Source for Russell Index Data: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). Please see Additional Disclosures page for information about this FTSE Russell information.

(3) the portfolio exhibited positive stock selection in six out of 10 of those sectors and was broadly achieved across growth-oriented sectors (information technology), cyclical sectors (industrials and business services, financials, and energy), and defensive sectors (health care). The story is largely the same over longer time periods.

What makes this story more compelling still is the fact that the strategy has delivered healthy outperformance without taking on excessive risk relative to the benchmark. A common method of determining portfolio risk, for example, is standard deviation, which measures the volatility or spread of asset prices when compared with the index. It is reasonable to expect that, in order to outperform the index, it is necessary to add risk, resulting in higher standard deviation. However, as Fig. 2 shows, this needn't be the case. Over the five-year period ending September 30, 2023, the US All-Cap Opportunities Equity Composite delivered 215 basis points of average annual outperformance, and with only marginally more risk, (0.01% standard deviation) compared with the linked benchmark.

The successful navigation of variable market environments in recent times is particularly encouraging, given that this is exactly what an all-cap opportunities strategy aims to achieve: to provide dynamic exposure in order to generate alpha for investors, whatever the prevailing market environment.

Alpha Generation Without Excessive Risk

Risks to the near-term U.S. market and economic outlook remain prominent, so we are comfortable maintaining a more cautious stance, particularly as the current risk/reward profile of the U.S. equity market provides little incentive to add risk at this point. We believe strong stock selection will be key to generating outperformance in the near term as company valuation and fundamental strengths come sharply back into focus. This backdrop plays to the strengths of active stock picking. Moreover, the large U.S. equity market means that investors with an all-cap remit can potentially benefit from tapping a broad range of opportunities throughout the market capitalization spectrum and across investment styles, sectors, and industries. Ultimately, consistent alpha generation without taking on excessive short-term relative risk is possible. However, we believe it requires high-conviction stock picking, with the flexibility to invest across the market spectrum, and a fundamental understanding of intrinsic company value.

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PERFORMANCE

US All-Cap Opportunities Equity Composite

As of 30 September 2023. Figures calculated in US dollars.

	Annualized Returns (%)			
	One Year	**Five Years**	**Ten Years**	**Since Manager Inception***
US All Cap Opportunities Equity Composite (Gross of Fees)	25.91	14.02	15.67	17.41
US All Cap Opportunities Equity Composite (Net of Fees)	25.23	13.40	15.04	16.77
Linked Benchmark†	20.46	11.87	14.20	14.93
Value Added (Net of Fees)‡	**4.77**	**1.53**	**0.84**	**1.84**
Russell 3000 Index§	20.46	9.14	11.28	11.85
Value Added (Net of Fees)‡	**4.49**	**4.26**	**3.76**	**4.92**

Past performance is not a reliable indicator of future performance.

Gross performance returns are presented before management and all other fees, where applicable, but after trading expenses. Net of fees performance reflects the deduction of the highest applicable management fee that would be charged based on the fee schedule contained within this material, without the benefit of breakpoints. Gross and net performance returns reflect the reinvestment of dividends and are net of all non-reclaimable withholding taxes on dividends, interest income, and capital gains.

Source for Russell Index Data: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). Please see Additional Disclosures page for information about this FTSE Russell information.

*31 Mar 2016 represents the date the Portfolio Manager took over lead management responsibility for the portfolio.

† Effective 1 March 2021, the benchmark for the US All-Cap Opportunities Equity Composite changed to the Russell 3000 Index. Prior to this change, the benchmark was the Russell 1000 Growth Index. Historical benchmark representations have not been restated.

‡ The Value Added row is shown as US All-Cap Opportunities Equity Composite (Net of Fees) minus the benchmark in the previous row.

§ Index returns shown with gross dividends reinvested.

US ALL-CAP OPPORTUNITIES EQUITY COMPOSITE

Risks—the following risks are materially relevant to the portfolio:

Currency—Currency exchange rate movements could reduce investment gains or increase investment losses.

Issuer concentration—Issuer concentration risk may result in performance being more strongly affected by any business, industry, economic, financial or market conditions affecting those issuers in which the portfolio's assets are concentrated.

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 portfolio's assets are concentrated.

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

General Portfolio Risks

Capital risk—The value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

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

ESG and sustainability—ESG and Sustainability risk may result in a material negative impact on the value of an investment and performance of the portfolio.

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 portfolio's assets are concentrated.

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

Investment portfolio—Investing in portfolios 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 portfolio 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.

GIPS® COMPOSITE REPORT

US All-Cap Opportunities Equity Composite

Period Ended 31 December 2022. Figures Shown in U.S. dollar.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Gross Annual Returns (%)	38.83	10.33	9.65	2.21	35.56	2.07	36.04	45.79	21.69	-20.66
Net Annual Returns (%)*	37.36	9.15	8.47	1.10	34.13	0.97	34.60	44.25	20.39	-21.54
Benchmark (%)†	33.48	13.05	5.67	7.08	30.21	-1.51	36.39	38.49	21.46	-19.21
Russell 3000 Index (%)†	33.55	12.56	0.48	12.74	21.13	-5.24	31.02	20.89	25.66	-19.21
Composite 3-Yr St. Dev.	13.01	10.54	12.33	13.42	12.85	13.43	13.44	19.90	18.02	21.61
Benchmark 3-Yr St. Dev.	12.18	9.59	10.70	11.15	10.54	12.13	13.07	19.64	17.62	21.42
Russell 3000 Index 3-Yr St. Dev.	12.53	9.29	10.58	10.88	10.09	11.18	12.21	19.41	17.94	21.48
Composite Dispersion	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Comp. Assets (Millions)	4,674.6	4,477.1	4,555.1	3,679.2	4,617.9	4,590.9	5,967.8	8,069.6	9,654.7	9,216.7
# of Accts. in Comp.	2	2	2	2	2	2	2	2	3	6
Total Firm Assets (Billions)	**696.3**	**749.6**	**772.4**	**817.2**	**1,000.2**	**972.7**	**1,218.2**	**1,482.5**	**1,653.6**	**1237.4**‡

*The fee rate used to calculate net returns is 1.09%. This represents the maximum fee rate applicable to all composite members. **Past performance is not a reliable indicator of future performance**.

† Effectve March 1, 2021, the benchmark for the composite changed to Russell 3000 Index. Prior to this change, the primary benchmark for the composite was the Russell 1000 Growth Index. The changes were made because the firm viewed the new benchmark to be a better representaton of the investment strategy of the composite. Historical benchmark representatons have not been restated.

‡ Preliminary—subject to adjustment.

T. Rowe Price (TRP) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. TRP has been independently verified for the 26-year period ended June 30, 2022 by KPMG LLP. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm wide basis. Verification does not ensure the accuracy of any specific composite presentation. TRP is a U.S. investment management firm with various investment advisers registered with the U.S. Securities and Exchange Commission, the U.K. Financial Conduct Authority, and other regulatory bodies in various countries and holds itself out as such to potential clients for GIPS purposes. TRP further defines itself under GIPS as a discretionary investment manager providing services primarily to institutional clients with regard to various mandates, which include U.S., international, and global strategies but excluding the services of the Private Asset Management group. As of October 1, 2022, there is no minimum asset level for portfolio inclusion into the composite. Prior to October 2022, the minimum asset level for equity portfolios to be included in composites was USD 5 million and prior to January 2002 the minimum was USD 1 million. The minimum asset level for fixed income and asset allocation portfolios to be included in composites was USD 10 million; prior to October 2004 the minimum was USD 5 million; and prior to January 2002 the minimum was USD 1 million. Valuations are computed and performance reported in U.S. dollars. Gross performance returns are presented before management and all other fees, where applicable, but after trading expenses. Net of fees performance reflects the deduction of the maximum fee rate applicable to all composite members as shown above. Gross performance returns reflect the reinvestment of dividends and are net of non-reclaimable withholding taxes on dividends, interest income, and capital gains. Gross performance returns are used to calculate presented risk measures. Effective June 30, 2013, portfolio valuation and assets under management are calculated based on the closing price of the security in its respective market. Previously portfolios holding international securities may have been adjusted for after-market events. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Dispersion is measured by the standard deviation across asset-weighted portfolio returns represented within a composite for the full year. Dispersion is not calculated for the composites in which there are five or fewer portfolios. Some portfolios may trade futures, options, and other potentially high-risk derivatives that may create leverage and generally represent in aggregate less than 10% of a portfolio. Benchmarks are taken from published sources and may have different calculation methodologies, pricing times, and foreign exchange sources from the composite. Composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow greater than or equal to 15% of portfolio assets. The temporary removal of such an account occurs at the beginning of the measurement period in which the significant cash flow occurs and the account re-enters the composite on the last day of the current month after the cash flow. Additional information regarding the treatment of significant cash flows is available upon request. The firm's list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are available upon request. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. A portfolio management change occurred effective May 10, 2013 and April 1, 2016. There were no changes to the investment program or strategy related to this composite.

FEE SCHEDULE—US ALL-CAP OPPORTUNITIES EQUITY COMPOSITE

As of 30 September 2023

US All-Cap Opportunities Equity Composite. The US All-Cap Opportunities Equity Composite seeks to provide long-term growth of capital by investing primarily in the common stocks of companies operating in sectors T. Rowe Price believes will be the fastest growing in the United States. (Created June 2006; incepted 31 December 1995) (Formerly known as US Multi-Cap Growth Equity Composite)

First 50 million (USD)	50 basis points
Next 50 million (USD)	50 basis points
Above 100 million (USD)	45 basis points on all assets*
Above 200 million (USD)	42.5 basis points on all assets*
Minimum separate account size	50 million (USD)

*A transitional credit is applied to the fee schedule as assets approach or fall below the breakpoint.

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