

THE T. ROWE PRICE  
INVESTMENT GUIDE  
*to*  
**BOND FUNDS**

- “Why do I need bond funds in my portfolio?”
- “What kind of bond funds are available?”
- “How can T. Rowe Price help me?”

## INVEST IN T. ROWE PRICE'S TIME-TESTED EXPERTISE

When it comes to investing your hard-earned assets, you can trust T. Rowe Price, where you'll benefit from these advantages:

- **A consistent, disciplined approach since 1937**

When you invest with T. Rowe Price, you benefit from a longstanding tradition of investment management excellence. Developed over many years and tested through many cycles of market conditions, our approach to long-term investing can help you reach your goals.

- **A strong commitment to independent research**

Independent research is the key to finding promising new investment opportunities. T. Rowe Price maintains one of the largest and most respected research teams in the industry.

- **Seasoned managers and analysts**

Our portfolio managers offer you a wealth of investment experience, which provides you with a reliable knowledge base as you invest for your future. In fact, our fixed income portfolio managers average 20 years' investment experience and 15 years with T. Rowe Price.

- **Sophisticated risk management**

Every opportunity for attractive returns carries a measure of risk. To help protect our investors, T. Rowe Price looks for investments that offer good prospects for income while balancing the potential for risk.

- **Adherence to a portfolio's stated investment style**

When you invest with T. Rowe Price, you are assured that our portfolio managers are focused on choosing investments in accordance with the fund's strategy as described in its prospectus.

**BOND FUNDS** *can be a key part of a well-diversified portfolio. These versatile investments can help you achieve several objectives: supplemental income, diversification, and risk reduction for stock-heavy portfolios.*

This guide will explain the fundamentals of bond funds and help you gain a better understanding of how bond investments can add to your financial strategy.

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# Why Invest in Bond Funds?

## Supplementing Your Income With Bond Funds

Whether you are retired and looking to maintain a retirement income stream with the potential to keep up with inflation or you are seeking income from your investments, you may want to consider investing in bond funds. They can be a reliable source of regular income—you can take the dividends as a payment or reinvest them. They also offer higher income potential than money market funds, although with greater price fluctuations.

Bond funds also can serve as an attractive “middle ground” between stability (cash) investments and stock funds, offering investors the potential for more meaningful returns than cash investments with less volatility than stock funds. You should note that, unlike cash investments, bond fund prices will fluctuate with market conditions. In addition, stock funds historically have offered higher return potential than bond funds.

### Individual bonds versus bond funds

Investing in bond funds is different than investing in individual bonds. When you invest in a bond, you lend the issuer money. The issuer then pays you regular interest for the duration of the bond and repays the principal at the bond’s maturity date, provided the issuer does not default.

Bond funds, on the other hand, invest in many bonds. They have a value all their own, based on the coupon rate and time to maturity of each bond in which the fund invests as well as federal interest rates and other outside factors. Bond funds can offer investors many of the same benefits of individual bonds in addition to the advantages of diversification—investing in a number of different bonds—and professional management.

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## Tax-Free Income

Investors who wish to decrease their tax burden can pursue tax-free income in two ways. Municipal bonds earn income free of federal tax. State municipal bonds generate income exempt from federal; state; and, sometimes, local taxes.

Investors in higher federal tax brackets can realize a significant overall tax advantage by including tax-free bond funds in their investment picture. Although tax-free bond funds typically yield less than their taxable counterparts, investors are willing to accept a lower yield since they don't have to pay federal (and perhaps state and local) taxes on the income. Depending on the investor's tax bracket, tax-free bonds may provide higher after-tax income. The following chart shows that as your effective tax rate rises, the value of the tax-exempt yield also increases.

FEDERAL TAX-EXEMPT VS. TAXABLE YIELDS					
Your Taxable Income	A Tax-Exempt Yield of:				
	3%	4%	5%	6%	7%
Federal Tax Rate	Is Equivalent to a Taxable Yield of:				
25.0%	4.00%	5.33%	6.67%	8.00%	9.33%
28.0	4.17	5.56	6.94	8.33	9.72
33.0	4.48	5.97	7.46	8.96	10.45
33.0*	4.75	6.33	7.91	9.49	11.08
35.0 *	4.90	6.54	8.17	9.80	11.44
39.6*	5.30	7.07	8.83	10.60	12.37

This chart is for illustrative purposes only and does not represent the performance of any specific security. Net amount is subject to federal income tax after deductions and exemptions.

\*Additional 3.8% federal tax imposed on lesser of total "net investment income" or the amount of modified adjusted gross income (MAGI) in excess of the applicable threshold (\$200,000 for single return and \$250,000 for joint return).

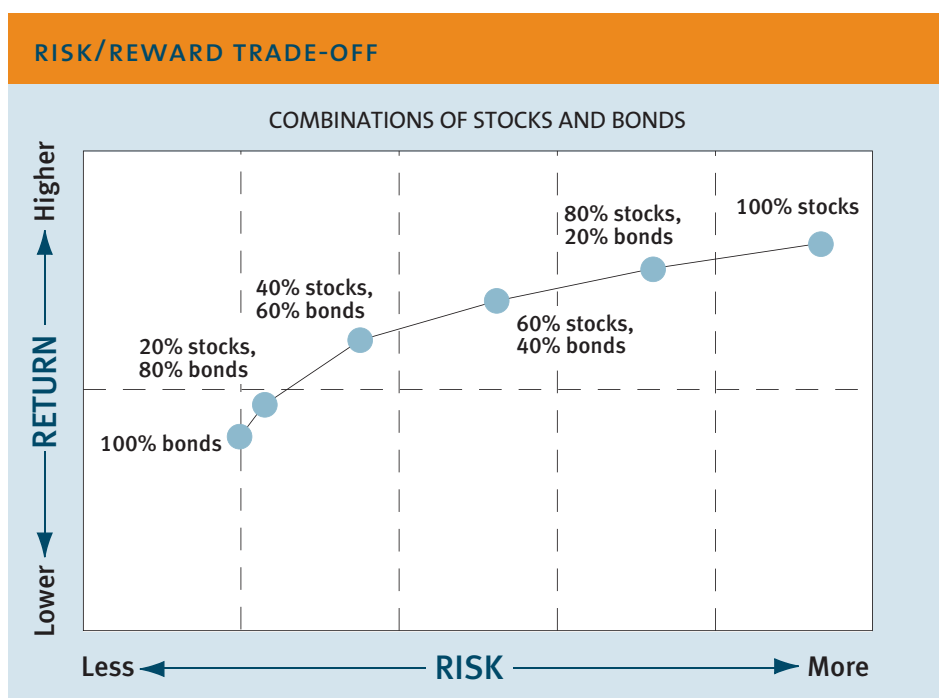
► *Depending on the investor's tax bracket, tax-free bonds may provide higher after-tax income.*

## Diversifying With Bond Funds

An appropriate asset mix is essential to your long-term investment success. Although diversification cannot assure a profit or protect against loss in a declining market, a diversified portfolio should be less volatile than one that's invested in just one asset class, such as stocks or bonds. That's because the underperformance of one type of investment may be offset by the strong performance of another.

### Bond investments can help reduce the overall volatility of a stock portfolio while maintaining return potential

If you had invested in the following proportions of stocks and bonds over the 37-year period from 1975–2012, you would have earned the average annual returns with the noted amounts of relative risk as depicted in the chart below. For example, an 80/20 stock/bond portfolio would have provided similar returns to an all-stock portfolio, with less risk.



Source: Ibbotson Associates, Inc. Stocks = S&P 500 Index; bonds = Barclays U.S. Aggregate Bond Index. Past performance cannot guarantee future results. It is not possible to invest directly in an index. Return and risk (standard deviation) are measured from 1975–2012. S&P 500 Index—tracks the stocks of 500 U.S. companies. Barclays U.S. Aggregate Bond Index—consists of publicly issued investment-grade debt of the U.S. Treasury and U.S. government agencies and U.S. corporate and noncorporate sectors. Standard deviation—used to represent a portfolio's total risk. Unlike stocks, U.S. government bonds are guaranteed as to the timely payment of interest and principal. This chart is for illustrative purposes only and is not intended to represent the risk/return options of your recommended portfolio.

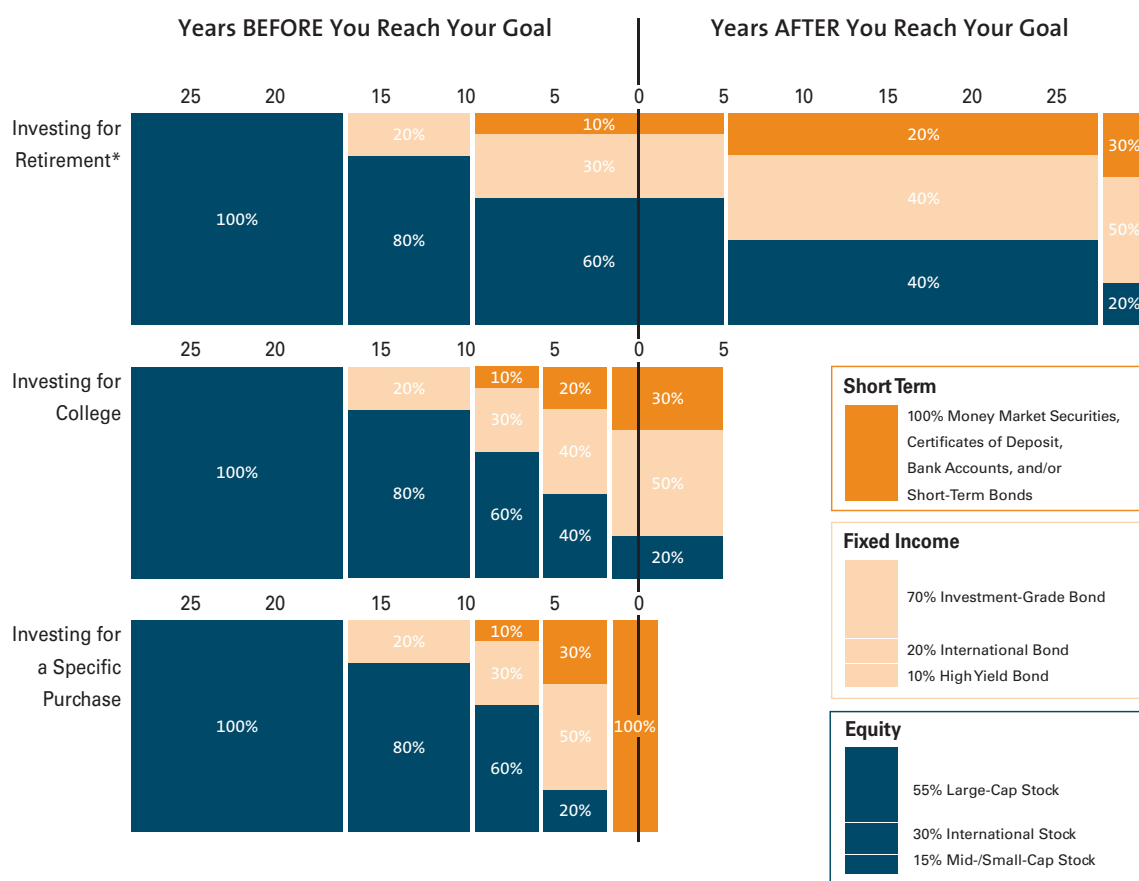
## Adding bond investments to your portfolio

To build a diversified portfolio, your first step is to determine what percentage of your assets should be allocated to stock, bond, and cash-equivalent (stability) investments. The longer your time horizon and the greater your tolerance for risk, the higher the percentage of assets that may be allocated to stocks and longer-term bonds.

The chart below illustrates three sample financial goals and how diversifying your portfolio with bonds can help you achieve them: Investing for Retirement, Investing for College, and Investing for a Specific Purchase. Review the chart to help pinpoint where you are, and use the sample portfolios as a guide to help you determine an appropriate asset allocation strategy. Note that as you get closer to reaching your goal, your asset allocation strategy emphasizes bonds and cuts back on stocks to reduce the portfolio's volatility.

### INVESTING BY TIME HORIZON

The following chart makes it easy to determine an appropriate investment mix. First, locate the box in the left-hand column that corresponds to your goal. Next, find your time horizon (shown in years across the top of the chart) and read down to find your recommended portfolio.



\*In the Investing for Retirement time line, the number zero shows an investor at age 65. Use this as a reference to find your age (10 to the left of zero shows you at age 55, 10 to the right of zero shows you at age 75).

The allocations above are based on age or time horizon and do not take risk tolerance into account.

# Choosing the Right Bond Funds

Once you decide to invest in bonds, it is important to get the right mix of funds. Investing in several bond funds with different investment strategies can help cushion the effects of interest rate and credit risk on your overall portfolio.

For example, investing in both shorter and longer maturities can help your strategy stay on track during both high and low interest rate climates.

Below is a list of terms and concepts related to bonds to help clarify your understanding and assist you as you choose bond funds for your portfolio.

## Bond Investments: Basic Terms and Concepts

**Bond:** A debt security, similar to an IOU. A company or government agency may sell bonds to raise money for a particular project and promise to pay the buyer the face value of the bond when it becomes due (its maturity date) while paying interest in the meantime.

**Bond fund:** A mutual fund composed of many bonds with a professional fund manager who buys and sells securities to keep the fund true to its specific investment objective. T. Rowe Price offers a range of 100% “no load” bond funds, meaning the investor does not pay sales charges or commissions.

**Laddering:** Laddering involves investing equal amounts in bonds that mature at regular intervals. When you reach the maturity date of the bond with the shortest maturity, you would use the proceeds to purchase a new bond at the longer end of the range. For example, you would buy bonds maturing each year for the next five years. One year from now the first bond would mature, and you would use the proceeds to purchase a new five-year bond. Due to the complex nature of investing in individual bonds and the costs associated with this type of strategy, it may be prudent to use bond funds. Remember that shorter-term bond funds generally carry lower risk/return potential than longer-term funds. That’s why a bond fund portfolio whose composite bonds have staggered maturity dates can provide income along with some protection from the impact of risk on your overall portfolio.

## How Bonds Earn Income

To understand how bond funds earn money amid changing market conditions, we've illustrated some key principles below.

**Coupon rate:** The coupon rate is expressed as a percentage of par (face) value, normally \$1,000. Since most bonds pay interest semiannually, a bond with an 8% coupon rate pays \$40 twice a year, for a total of \$80 per year ( $\$1,000 \times .08 = \$80$ ). The coupon rate on a particular type of security ordinarily rises as maturities lengthen and credit quality decreases. Among taxable investments, U.S. Treasury securities carry the lowest coupon rates because the federal government is the nation's most creditworthy borrower.

### Calculating interest paid using the coupon rate

Price of Bond	x	Coupon Rate	=	Interest Paid
\$1,000		.08		\$80

**Current yield:** While the coupon rate is fixed, the current yield fluctuates with rising and falling interest rates. A bond paying \$80 in interest per year yields 8.0% at par value. But if interest rates rise, causing the bond's price to fall to \$900, the yield rises to 8.9%; if the price rises to a premium over par, say to \$1,100, the yield drops to 7.3%. You can easily figure out the current yield by dividing the interest paid each year by the current price of the bond.

### Calculating interest yield

$\frac{\text{Interest Paid } \$80}{\text{Current Price of Bond } \$1,000}$	=	Current Yield
		.08

**Yield to maturity:** If you hold a bond until it matures, the bond's compound annual rate of return is made up of two components: interest income and capital gain or loss. An 8% bond bought at a price of \$900 and held until it matures in 10 years generates income of \$800 and a capital gain of \$100. Your average annual return, assuming all interest payments are reinvested at the same rate, is called the yield to maturity. The current yield to maturity in this example is 9.68%.

## Bonds' Risk and Return

**Credit risk:** Yields reflect a borrower's credit quality as well as the instrument's maturity. Lower-quality (noninvestment-grade or high yield) bonds—those rated BB or below—generally offer higher yields than better-quality issues but may be more volatile (see page 9). The higher yield compensates the investor for lending money to a company that is considered more likely to default—that is, not make timely interest or principal payments.

**Market or interest rate risk:** The possibility that interest rates will rise after you purchase a fixed income security. This will cause your bond's price to decline so that its current yield reflects the new, higher rates.

**Risk/return potential:** The chance that your investment will earn or lose money. In general, the higher an investment's potential for return, the higher the risk.

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### How interest rates affect bond funds

Having different types of bond funds in your portfolio will help you weather interest rate movements. When interest rates rise, the value of existing bonds and bond fund shares generally will decline. Conversely, when interest rates fall, bonds and bond fund shares generally will rise. Corporate income bonds, U.S. Treasury intermediate-term bonds, and U.S. Treasury long-term bonds usually do well when interest rates are declining.

Bond funds that emphasize short-term securities can lessen the impact of rising interest rates on a portfolio. In addition, Treasury inflation protected securities (TIPS) and high yield and mortgage-backed bonds, although potentially volatile, may be less sensitive to rate increases. If you are planning to invest for a long time—five to 10 years or more—your portfolio may be able to ride out the fluctuations of higher risk/reward bond funds.

Because it is difficult to predict when interest rates will go up or down, we do not recommend changing your bond portfolio mix in anticipation of rising or falling rates. Having a broadly diversified portfolio is the best way to deal with the unpredictability of interest rates.

► *Having a broadly diversified portfolio is the best way to deal with the unpredictability of interest rates.*

## What Is a Bond's Credit Rating?

A bond's credit rating is an assessment of risk based on the financial condition of the issuer. A rating service (such as Standard & Poor's or Moody's) evaluates how likely a bond issuer is to repay the debt and interest on time. A bond rated AAA/Aaa is the most creditworthy, while a C rated bond is much more risky.

An established, reputable company might have bonds carrying an investment-grade rating such as AA (with a low yield but a lower risk of default), while the bonds issued by a company just starting out might have a low rating. These lower-graded, high yield bonds have a higher potential for impressive returns but also a higher risk of default.

BOND RATING CODES		
RATING	STANDARD & POOR'S	MOODY'S
Highest quality	AAA	Aaa
High quality	AA	Aa
Upper-medium quality	A	A
Medium grade	BBB	Baa
Somewhat speculative	BB	Ba
Low grade, speculative	B	B
Low grade (default possible)	CCC	Caa
Low grade (partial recovery possible)	CC	Ca
Default (recovery unlikely)	C	C

*To maintain our independent perspective, T. Rowe Price has a large group of experienced fixed income analysts. They carefully examine the credit quality of each security considered for purchase and provide our portfolio managers with objective research.*

## Types of Bond Funds

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### U.S. Treasury bond funds:

These funds are composed of bonds issued by the federal government, with varying maturities, that are high-quality, relatively safe investments with almost no risk of default. Treasury securities are backed by the full faith and credit of the U.S. government. Bonds of this type can be subject to interest rate risk, however, depending on maturity. (Longer-term bonds have a higher risk/return potential.)

- Treasury bills, or T-bills, have maturities of 13 weeks, 26 weeks, or one year
  - Treasury notes mature in two to 10 years
  - Treasury bonds mature in 10 years or longer
- 

### Tax-free bond funds:

Municipal bond funds offer income that's exempt from federal taxes. In addition, certain state-specific municipal bond funds provide income free of federal, state, and local taxes. (Some income may be subject to the federal alternative minimum tax. Income earned by nonresidents of the fund's state will be subject to applicable state and local taxes.) Tax-free bond funds typically offer lower yields than comparable bond funds, but, in many cases, this is offset by tax savings.

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### Corporate bond funds:

These funds invest in bonds issued by corporations. The funds' risk/return potential varies according to term length and credit rating. High yield bond funds are composed of bonds that are below investment grade and offer higher risk but higher potential for return than funds concentrating on investment-grade corporate bonds.

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### Mortgage-backed securities funds:

These funds invest primarily in certificates, such as those issued by the Government National Mortgage Association (GNMA, or Ginnie Mae), that represent a pool of mortgages. They also may be able to invest in securities issued by other government-sponsored enterprises. Mortgage-backed securities tend to have high credit quality; in fact, the GNMA guarantees the timely payment of interest and principal on its securities, a guarantee backed by the U.S. Treasury.

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### International and global bond funds:

Investors can use international or global bonds to diversify their portfolios of domestic bond funds. International bond funds invest in bonds issued by countries or corporations outside the U.S., while global bond funds may include U.S. issuers. Keep in mind that these funds are subject to special risks that are typical of international investing, such as currency fluctuations and political and economic changes. Bond investments from emerging markets are particularly volatile.

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### Blended bond funds:

Investors who do not wish to pick and choose a selection of bond funds can invest in a diverse range of bond funds with one choice. Blended bond funds may combine short- and long-term bonds, domestic and foreign bonds, and different credit ratings to maximize potential earnings while addressing risk.

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► *Blended bond funds may combine short- and long-term bonds, domestic and foreign bonds, and different credit ratings to maximize potential earnings while addressing risk.*

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# T. Rowe Price Bond Funds

T. Rowe Price offers a wide variety of 100% no-load bond funds.

Our funds are listed below in general risk/return categories based on their past performance or, for newer funds, the performance of the types of securities in which they invest.

*Past performance cannot guarantee future results. The funds are not money market funds and are intended for investors who can accept the risk of price declines. Bond fund yield and share price will vary with interest rate changes. Investors should note that if interest rates rise significantly from current levels, bond fund total returns will decline and may even turn negative in the short term.*

## LOWER RISK/REWARD

LOWEST

LOWER

MODERATE

HIGHER

HIGHEST

Fund Name/ Ticker Symbol	Investment Objective	Invests In	Average Maturity	Credit Quality
<b>TAXABLE</b>				
<b>GNMA<sup>†</sup></b> PRGMX	High current income consistent with high overall credit quality and moderate share price fluctuation	At least 80% of total assets in GNMA securities backed by the full faith and credit of the U.S. government; up to 20% can be invested in high-quality securities, such as corporate bonds and privately issued mortgage securities	Varies	Highest and high quality
<b>New Income</b> PRCIX	Highest level of income consistent with the preservation of capital over time	Income-producing securities, which may include corporate bonds; U.S. Treasury and agency obligations; mortgage-backed securities; foreign securities; and, on occasion, equities	4 to 15 years	Primarily investment grade (AAA to BBB)
<b>Short-Term Bond</b> PRWBX	High level of income consistent with minimal fluctuation in principal value and liquidity	Short- and intermediate-term investment-grade corporate, government, and mortgage-backed securities	3 years or less	Highest to medium quality
<b>Summit GNMA<sup>†</sup></b> PRSUX	High level of income and maximum credit protection; the fund's minimum investment level of \$25,000 helps keep expenses low, thereby increasing total return potential	At least 80% of net assets in GNMA securities backed by the full faith and credit of the U.S. government; up to 20% can be invested in high-quality securities, such as corporate bonds and privately issued mortgage securities	Varies	Highest and high quality
<b>U.S. Bond Enhanced Index<sup>‡</sup></b> PBDIX	To provide a total return that matches or incrementally exceeds the performance of the U.S. investment-grade bond market	U.S. investment-grade bonds representative of the Barclays U.S. Aggregate Bond Index	6.91 years*	Highest and high quality
<b>Ultra Short-Term Bond</b> TRBUX	High level of income consistent with minimal fluctuations in principal value and liquidity	Shorter-term investment-grade corporate and government securities, including mortgage-backed securities, money market securities, and bank obligations	1.20 years	Highest to medium quality

<sup>†</sup>These funds are not insured or guaranteed by the U.S. government, FDIC, or any other government agency.

<sup>‡</sup>To protect the interests of long-term shareholders, this fund charges a 0.5% redemption fee on shares held for 90 days or less. This fee is paid directly to the fund, not to T. Rowe Price Associates.

\*The average maturity of the Barclays U.S. Aggregate Bond Index as of December 31, 2012; it will vary with market conditions.

## LOWER RISK/REWARD

LOWEST

LOWER

MODERATE

HIGHER

HIGHEST

Fund Name/ Ticker Symbol	Investment Objective	Invests In	Average Maturity	Credit Quality
<b>TAX-FREE</b>				
<b>Maryland Short-Term Tax-Free Bond</b> PRMDX	Highest level of income exempt from federal and Maryland state and local income taxes with modest share price fluctuation	Maryland municipal bonds	Up to 3 years	Highest to medium quality; up to 10% in below investment grade
<b>Summit Municipal Intermediate</b> PRSMX	Highest level of income exempt from federal income taxes with moderate price fluctuation; the fund's minimum investment level of \$25,000 helps keep expenses low, thereby increasing total return potential	A nationally diversified portfolio of municipal bonds	5 to 10 years	Primarily highest to medium quality; up to 10% in below investment grade
<b>Tax-Free Short-Intermediate</b> PRFSX	High level of income exempt from federal income taxes consistent with moderate share price fluctuations	A nationally diversified portfolio of short- and intermediate-term municipal securities	2 to 5 years	Highest to medium quality; up to 5% in below investment grade

## MODERATE RISK/REWARD

LOWEST

LOWER

MODERATE

HIGHER

HIGHEST

Fund Name/ Ticker Symbol	Investment Objective	Invests In	Average Maturity	Credit Quality
<b>TAXABLE</b>				
<b>Corporate Income</b> PRPIX	High income and some capital appreciation	U.S. and foreign corporate bonds, convertible debt, and preferred stock	10+ years	Minimum of 65% in investment grade (AAA to BBB); up to one-third in noninvestment grade (junk)
<b>Emerging Markets Bond<sup>†</sup></b> PREMX	High current income and capital appreciation	Government and corporate bonds in emerging foreign markets	Generally 5 to 10 years	Below investment grade
<b>Emerging Markets Corporate Bond<sup>†</sup></b> TRECX	High current income and, secondarily, capital appreciation	Bonds issued by companies that are located or listed in, or conduct the predominant part of their business activities in, emerging markets countries	Generally 3 to 10 years	Below investment grade
<b>Emerging Markets Local Currency Bond<sup>†</sup></b> PRELX	High income and capital appreciation	Bonds denominated in emerging markets currencies	3+ years	Below investment grade
<b>Floating Rate<sup>†</sup></b> PRFRX	High current income and capital appreciation	Floating rate loans and floating rate debt securities	Generally 4 to 8 years	Below investment grade
<b>High Yield<sup>†*</sup></b> PRHYX	High current income and some capital appreciation	High yield corporate or "junk" bonds	6 to 10 years	Lower-medium to low quality (junk)

<sup>†</sup>To protect the interests of long-term shareholders, this fund charges a 2% redemption fee on shares held for 90 days or less.

<sup>\*</sup>Closed to new investors except for a direct rollover from a retirement plan into a T. Rowe Price IRA invested in this fund.

**Note:** For some investors, some income from municipal securities may be subject to the federal alternative minimum tax. Income earned from securities issued in states other than your state of residence will be subject to applicable state and local taxes.

## MODERATE RISK/REWARD, CONT.

LOWEST

LOWER

MODERATE

HIGHER

HIGHEST

Fund Name/ Ticker Symbol	Investment Objective	Invests In	Average Maturity	Credit Quality
<b>TAXABLE, continued</b>				
<b>Inflation Protected Bond</b> PRIPX	Inflation protection and income	At least 80% of net assets in inflation protected bonds, with an emphasis on inflation-indexed U.S. Treasury securities	5 to 15 years	Highest and high quality
<b>International Bond</b> <sup>†</sup> RPIBX	High level of current income and capital appreciation	Foreign government and corporate bonds	Generally 3 to 10 years	Primarily high quality; up to 20% in below investment grade
<b>Strategic Income</b> PRSNX	High level of income and some capital appreciation	At least 80% of net assets in income-producing securities or other instruments; the fund may invest in a variety of securities in an effort to enhance income and achieve some capital growth	4 to 15 years	Highest to low quality, with up to 65% in noninvestment grade (junk) and other holdings
<b>U.S. Treasury Intermediate</b> <sup>‡</sup> PRTIX	High level of income with maximum credit protection and moderate price fluctuation	Primarily U.S. Treasury securities backed by the full faith and credit of the U.S. government	3 to 10 years	Highest quality
<b>U.S. Treasury Long-Term</b> <sup>‡</sup> PRULX	Highest level of current income with maximum credit protection	Securities backed by the full faith and credit of the U.S. government	10 to 30 years	Highest quality
<b>TAX-FREE</b>				
<b>California Tax-Free Bond</b> PRXCX	Highest level of income exempt from federal and California state income taxes	Long-term investment-grade California municipal bonds	10+ years	Highest to medium quality; up to 10% in below investment grade
<b>Georgia Tax-Free Bond</b> GTFBX	Highest level of income exempt from federal and Georgia state income taxes	Long-term investment-grade Georgia municipal bonds	10+ years	Highest to medium quality; up to 10% in below investment grade
<b>Maryland Tax-Free Bond</b> MDXBX	Highest level of income exempt from federal and Maryland state and local taxes	Long-term investment-grade Maryland municipal bonds	10+ years	Highest to medium quality; up to 10% in below investment grade
<b>New Jersey Tax-Free Bond</b> NJTFX	Highest level of income exempt from federal and New Jersey state income taxes	Long-term investment-grade New Jersey municipal bonds	10+ years	Highest to medium quality; up to 10% in below investment grade
<b>New York Tax-Free Bond</b> PRNYX	Highest level of income exempt from federal, New York state, and New York City income taxes	Long-term investment-grade New York municipal bonds	10+ years	Highest to medium quality; up to 10% in below investment grade

<sup>†</sup>To protect the interests of long-term shareholders, this fund charges a 2% redemption fee on shares held for 90 days or less.

<sup>‡</sup>These funds are not insured or guaranteed by the U.S. government, FDIC, or any other government agency.

**Note:** For some investors, some income from municipal securities may be subject to the federal alternative minimum tax. Income earned from securities issued in states other than your state of residence will be subject to applicable state and local taxes.

Fund Name/ Ticker Symbol	Investment Objective	Invests In	Average Maturity	Credit Quality
<i>TAX-FREE, continued</i>				
<b>Summit Municipal Income</b> PRINX	High level of income exempt from federal income tax; the fund's minimum investment level of \$25,000 helps keep expenses low, thereby increasing total return potential	A nationally diversified portfolio of municipal bonds	15+ years	Primarily highest to medium quality; up to 20% in below investment grade
<b>Tax-Free High Yield†</b> PRFHX	High level of income exempt from federal income tax	A nationally diversified portfolio of long-term, low- to upper-medium-grade municipal bonds	10+ years	Upper-medium to low quality (junk)
<b>Tax-Free Income</b> PRTAX	High level of income exempt from federal income tax	A nationally diversified portfolio of long-term investment-grade municipal bonds; exempt from the alternative minimum tax	10+ years	Highest to medium quality; up to 10% in below investment grade
<b>Virginia Tax-Free Bond</b> PRVAX	Highest level of income exempt from federal and Virginia state income taxes	Long-term investment-grade Virginia municipal bonds	10+ years	Highest to medium quality; up to 10% in below investment grade

†To protect the interests of long-term shareholders, this fund charges a 2% redemption fee on shares held for 90 days or less.

**Note:** For some investors, some income from municipal securities may be subject to the federal alternative minimum tax. Income earned from securities issued in states other than your state of residence will be subject to applicable state and local taxes.

## T. Rowe Price Spectrum Income Fund (RPSIX)

### The simplicity of one fund, the diversity of many

For investors who are undecided about which bond funds to incorporate into their portfolios, the T. Rowe Price Spectrum Income Fund may simplify the selection process.

The fund invests in a diversified group of T. Rowe Price mutual funds, each chosen to represent a specific market segment. It is actively managed and monitored, with the fund manager making adjustments to accommodate market conditions (within the limits prescribed in the fund's strategy). And, unlike some funds of funds, the Spectrum Income Fund minimizes costs by only charging a percentage of fees from its underlying funds, with no additional overall fee.

This strategy provides long-term investors with a professionally selected mix of corporate bonds, U.S. Treasury and GNMA securities, high yield bonds, and income-producing stocks. International bond investments are also included. Diversification among different investment types can reduce the impact of declining markets while taking advantage of strong performance in others.

This fund's yield and share price will fluctuate as interest rates change. You should note that if interest rates rise significantly from current levels, bond funds' total returns are likely to decline and may even turn negative in the short term. For current yields and other information, visit [troweprice.com/spi](http://troweprice.com/spi).

## Guidance/Resources

There are several resources available to help you invest in T. Rowe Price bond funds, including the T. Rowe Price website.

### T. Rowe Price Fixed Income Center: [troweprice.com/fixedincome](https://troweprice.com/fixedincome)

Now you can go to one convenient website to find all the fixed income products

T. Rowe Price offers, including:

- Bond funds
- Money market funds
- Certificates of deposit
- Individual bonds (available through T. Rowe Price Brokerage)

The Fixed Income Center also features an interactive tool that makes it easy to determine the right amount of fixed income for your portfolio based on your age and individual goals. From there, you can get detailed information on any of our funds, including expenses and recent performance.

To see how T. Rowe Price can help add income to your portfolio, visit [troweprice.com/fixedincome](https://troweprice.com/fixedincome).

***An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although the funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in them.***

*If you would prefer to meet with us in person, visit one of our Investor Centers. You'll get one-on-one service from an investment counselor who can help you with your key investment goals, such as planning for retirement, rolling over an old 401(k), or selecting a mutual fund.*

*For directions, call **1-800-225-3222** or visit our website [troweprice.com/investorcenters](https://troweprice.com/investorcenters).*

It's easy to pursue your financial goals with a T. Rowe Price bond fund:

## OPEN AN ACCOUNT TODAY

Everything you need to get started is enclosed, including a prospectus. *To request a prospectus or summary prospectus for any of our other bond funds, please call 1-800-953-7896 or visit our website at [troweprice.com/bondfunds](http://troweprice.com/bondfunds). The prospectus and summary prospectus include investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.*

To open your account, simply fill out the enclosed New Account form and return it in the postage-paid envelope.

For guidance or to open an account over the phone, call toll-free: 1-800-953-7896. You can also visit our website: [troweprice.com/bondfunds](http://troweprice.com/bondfunds).

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