

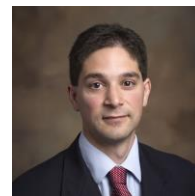


IS THERE MORE TO THE US GROWTH STORY THAN FAANGS?

JUNE 2018

Taymour Tamaddon

Portfolio Manager, US Large Cap Growth Equity strategy



US growth investing delivered particularly strong performance in 2017 and, indeed, in the last decade. The frequently-cited FAANG companies (Facebook, Amazon, Apple, Netflix and Google/Alphabet) have played a significant role in driving the stellar performance of growth indices. But contrary to widely-held opinion, the rally in US growth stocks is more than just a FAANG story: there are many diversified sources of alpha beyond the five technology giants, if investors know where to look.

FAANG companies have been successful because they are innovative and disruptive, effectively changing the way their respective industries operate. However, there are examples of other growth companies that we believe exhibit similar features. While they fly a little lower under the radar, the following are examples of those we believe are well positioned to take a major share of established markets and generate significant free cash flows.

- **Intuit (Software)**

Intuit is a tax returns filing and small business accounting software company that is disrupting its industry. Its technology architecture has allowed the company to grow online subscription services in these areas – which are both popular and tend to retain customers – at relatively low capital intensity.

- **Red Hat (Software)**

Red Hat is an open-source software company that allows seamless access to on-premise database storage and cloud database service providers. Our insight – that companies would need to maintain a presence both on and off-premise – underpins our investment rationale. Companies can choose the cloud provider they want to use, as Red Hat's software can interface with AWS, Microsoft Azure and Google cloud.

- **Stryker (Medical Equipment & Devices)**

Stryker is an innovative healthcare company specializing in hip and knee replacement surgery. Its leading position in 3D printing of replacement hips and knees and its robotic surgery product, are leading to dramatically better patient outcomes. The company is taking outsized market share, leading to higher profitability.

- **Boeing (Aerospace & Defense)**

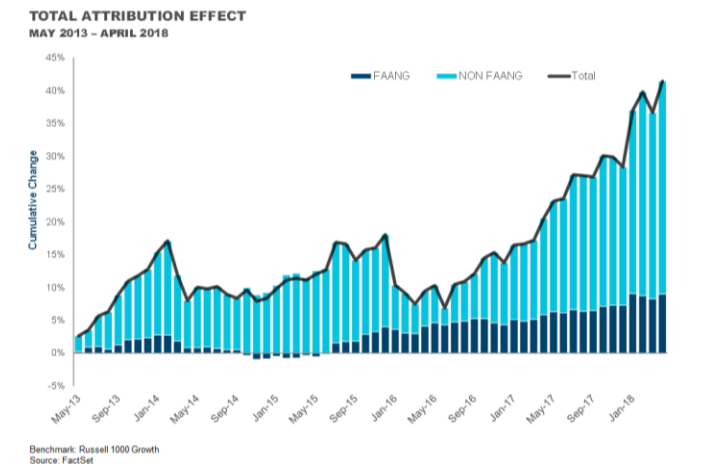
Boeing is perhaps not recognized by the market as an innovator, nor a growth company. However, it is precisely this misperception that has provided us with an investment opportunity. We believe Boeing is a leader in a global duopoly and is a less cyclical business than the market believes. Air passenger trends

are favorable globally, while Boeing's 787 aircraft with its composite fuselage is the most innovative, fuel-efficient product available and so is attracting strong demand and generating significant free cash flow.

We have exposure to the FAANG stocks and have been significant owners of some of these companies in the T. Rowe Price US Large Cap Growth Equity strategy for some time. However, to put the relative performance contribution into context, the FAANG stocks have collectively accounted for only 21% of our outperformance of the benchmark over the past five years, while the vast majority of the alpha generated has come from sources outside these FAANG companies (Figure 1).

Figure 1: Majority of alpha generated by non-FAANG growth stocks

T. ROWE PRICE FUNDS SICAV – US LARGE CAP GROWTH EQUITY FUND



Past performance is not a reliable indicator of future returns.

Benchmark: Russell 1000 Growth Index
Source: Factset as of April 2018

We are clearly in the later stages of the market cycle in the US. However, stock valuations still appear adequately supported at current levels by solid growth and a low inflation rate. Corporate earnings expectations have increased in 2018, boosted by US tax reforms. Even excluding this contribution, on a fundamental basis, many companies reported improving top-line and earnings growth above consensus expectations in the most recent quarter.

In this environment we continue to find many examples of the type of innovative, disruptive and cash flow generative businesses we look for – the majority of which are outside the high-profile FAANG companies.

Key Risks— Transactions in securities of foreign currencies may be subject to fluctuations of exchange rates which may affect the value of an investment. The strategy is subject to the volatility inherent in equity investing, and its value may fluctuate more than a strategy investing in income-oriented securities.

Important Information

The specific securities identified and described above do not represent all of the securities purchased, sold, or recommended for the strategy. This information is not intended to be a recommendation to take any particular investment action and is subject to change. No assumptions should be made that the securities identified and discussed above were or will be profitable.

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 in an official language of the jurisdictions in which the Funds are registered for public sale, together with 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 and via www.troweprice.com.

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA—Issued in the European Economic Area by T. Rowe Price International Ltd, 60 Queen Victoria Street, London EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH ("TRPSWISS"), Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. First Independent Fund Services Ltd, Klausstrasse 33, CH-8008 Zurich is Representative in Switzerland. Helvetische Bank AG, Seefeldstrasse 215, CH-8002 Zurich is the Paying Agent in Switzerland. For Qualified Investors only.

T. ROWE PRICE, INVEST WITH CONFIDENCE, and the bighorn sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc. © 2018 T. Rowe Price. All rights reserved.

