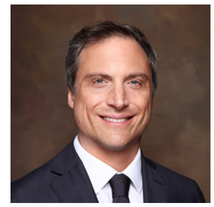
T. ROWE PRICE FUND FOCUS

ON THE T. ROWE PRICE FUNDS SICAV—DIVERSIFIED INCOME BOND FUND

June 2019

STRATEGY SUMMARY

- Seek stable income through a focus on risk-adjusted income over a medium term horizon; portfolio optimized to minimise volatility through the cycle.
- Invests in broad investment universe, with tactical allocations across 16 fixed income sectors, 80+ countries, and 40+ currencies; avoids excessive concentration in any one sector, currency, or risk factor.
- Maintains a controlled risk profile by adjusting risk positions, hedges, and liquidity in response to market conditions.
- Index-agnostic—investment positions are a synthesis of top-down macro views and high-conviction security selection from a proprietary global research platform.



Ken Orchard
Portfolio Manager

The T. Rowe Price Funds SICAV—Diversified Income Bond Fund is targeted at investors seeking steady, attractive returns from their bond portfolio. The Fund has an annual income target, currently set at 5% per annum over the market cycle for the USD-denominated share classes A, Q, and I.[1] In the Q&A below, Portfolio Manager Ken Orchard discusses bond income fund investing and outlines T. Rowe Price's approach to it.

What is a bond income fund?

Income funds prioritize the generation of regular income over capital appreciation. Bond income funds traditionally seek income through coupons from corporate or government bonds in the same way that equity income funds target stocks that pay regular dividends. Bond income funds will suit investors who are searching for a regular, low-volatility income stream from their investments, regardless of market conditions.

What is the main objective for an income strategy?

Successful income investing is about much more than just holding securities that pay high coupons. The paramount challenge for an income strategy is ensuring that returns are close to, or exceed, the income target through all market conditions. If bond prices decline and returns fall short, then capital may be eroded, even if income is still generated and paid.

Meeting the equal to or greater than income challenge depends on getting three things right:

1. Finding income-producing instruments with low volatility.
2. Using diversification to reduce correlations between positions (reducing overall volatility).
3. Adjusting the mix of risky and risk-free holdings, depending on market conditions.

What assets should a bond income fund include?

I believe that a good bond income fund will comprise four main "building blocks": high-quality sovereigns, investment-grade corporates, hard currency emerging market debt, and higher-yielding investments. These building blocks should be differentiated in terms of return and risk, enabling the manager to adjust the mix to achieve the desired level of income and volatility. Each building block should between 10% and 40% of the overall income, with the proportions varying depending on valuations, market conditions, and outlook. In normal times, the distribution will be skewed toward the higher-return/higher-risk blocks, while in turbulent times, the higher-quality blocks will be overweighted.

1. High-quality sovereigns

High-quality sovereigns (rated A- and above) and agency mortgage-backed securities, the first block, provide ballast to a portfolio—they provide a stable, reliable source of income,

[1] The income target is not a formal objective and it can be changed without prior notice at any time. Please refer to the prospectus for the formal investment objective.

although that income is modest given the currently low yields available from these assets. There is minimal credit risk in this part of the portfolio, and while there is some duration risk, this is a good thing as it can act as a hedge to some of the credit risk elsewhere in the portfolio.

2. Investment-grade corporates
The second block, investment-grade corporates and securitized credit, bring limited credit risk (with an average rating of A-) and a materially higher level of income than sovereigns. Shorter-dated issues may be more suitable because they offer the highest Sharpe ratios: The credit curve is usually steepest at the front end, boosting potential returns from roll-down, and duration is low, reducing price volatility.

3. Hard currency emerging market debt
Emerging market hard currency sovereigns and corporates, the third block, provide higher income. They also expose the portfolio to more price and credit risk. The emerging market corporate asset class has matured over the past decade and now contains a wide variety of companies from different regions, notably Asia, offering diversification from U.S. and European corporate credit.

4. Higher-yielding investments
The fourth block, high yield and emerging market local exposure, includes U.S. and European high yield corporates and emerging market local currency bonds and currencies. The objective here should be to put together a suite of differentiated ideas that generate elevated, yet sustainable, income—something that will require rigorous bottom-up fundamental analysis to select the right credit profiles. Given that this is the riskiest portion of the fund, the level of income from this block will need to be actively adjusted in accordance with current valuations and the market outlook.

How does T. Rowe Price Funds SICAV— Diversified Income Bond Fund differ from other bond income funds?

In our commitment to seek sustainable income over the market cycle. Many income funds are focused on high yield, emerging market debt, and/or securitized credit, exposing the portfolio to significant market volatility and default risk.

Our approach to seek generating "sustainable" is based on our belief that income can come from many sources, not just from high-coupon bonds. For example, while we use corporate and securitized credit, we also make substantial use of higher-quality, global government bonds, which have limited credit risk and aim to provide stability in cases of market turbulence. We make careful use of foreign exchange markets, searching for currencies that can offer elevated interest rates with low volatility or can act as a hedge for other holdings in the portfolio. Income is further enhanced from nontraditional return streams, such as payments derived from a credit default swap, the interest rate differential earned on foreign exchange positions, or the "rolldown" (the return that comes from the rise in value of a bond as maturity is approached) that comes from a steep yield curve. This should assist us to continue delivering income through difficult market conditions.

We recognize that investors in our Fund may be at different stages of their life cycle; therefore, they can choose whether to take income monthly through a managed distribution share class or leave it in the Fund to continue compounding.

Should an income fund emphasize a benchmark or an income target?

In our view, an income target is a clearer reflection of a bond income fund's objectives than aiming to beat a benchmark. While our income target—currently at 5% per annum[2]—is not guaranteed, it is set at a level that we believe is sustainable over the market cycle without taking on excessive risk. The target could be adjusted up or down if market conditions change structurally in a way that makes higher or lower income targets more sustainable.

We believe that when evaluating the performance of an income fund, the quartile ranking traditionally used to measure performance is not relevant. Rather, investors should look for a strategy that is paying a reasonable dividend based on the underlying assets.

How is risk managed in the Diversified Income Bond Fund?

Managing risk is an important part of any fixed income portfolio, and especially so with an income strategy. We believe that managing risk requires several complementary approaches. First, we cap sub-investment-grade and emerging market exposure at 50% each and commit to an overall average investment-grade rating for the portfolio. Second, we seek to maintain ex ante (forward-looking) volatility within a 200- to 500-basis-point range per annum. Finally, we utilize proprietary systems to monitor the balance of positions exposed to various factors in the portfolio, for example, to different market environments. We believe that our multifaceted approach will potentially deliver an attractive combination of stable income and moderate volatility over the long term.

[2] The income target is not a formal objective and it can be changed without prior notice at any time. Please refer to the prospectus for the formal investment objective.

Key Risks—The following risks are materially relevant to the fund highlighted in this material:

Transactions in securities of foreign currencies may be subject to fluctuations of exchange rates which may affect the value of an investment. Debt securities could suffer an adverse change in financial condition due to ratings downgrade or default which may affect the value of an investment. Investments in High Yield involve a higher element of risk.

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T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

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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 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 and via www.troweprice.com .

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