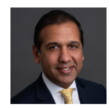
Smoothing the Ride for Credit Allocations

Dynamic Credit Fund offers a flexible, differentiated approach.

May 2023



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KEY INSIGHTS

- The Dynamic Credit Fund posted a nearly flat return in 2022, demonstrating the value of its approach in a historically difficult year for credit markets.
- The fund is well suited for those who want to take advantage of credit opportunities while also seeking a "smoother ride."
- The fund focuses on credit selection and sector rotation to generate alpha, coupled with active duration and credit beta management.

The Dynamic Credit Fund seeks to offer investors a "smoother ride" in credit investing by finding diverse alpha[1] sources in a variety of market environments. The fund focuses on credit selection and sector rotation across the credit spectrum—high yield, investment grade, emerging markets, securitized, distressed, municipals, convertibles, and bank loans—of the global multi-asset credit (MAC) universe.

The fund harnesses expertise across T. Rowe Price's global multi-sector research platform to deliver an actively managed, flexible portfolio with a long[2] bias. Coupled with this long bias, which is expected to deliver 80% of the fund's returns, we employ active credit shorting[3] and duration[4] management in looking to add further alpha and dampen volatility. Our strong emphasis on finding credit dislocations, our total return perspective, and our goal of creating a differentiated portfolio are embedded in the design and the process of the fund.

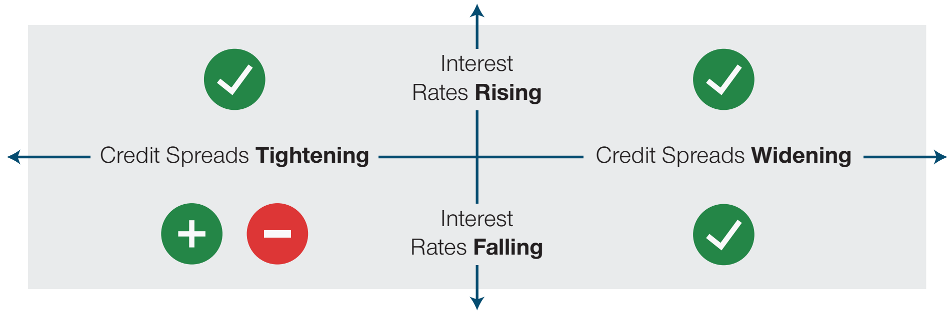
Key Source of Differentiated Returns

In addition to the fund's goal of delivering alpha across the broad credit market, we also strive to limit undue credit beta and duration risk. We believe that our approach to portfolio construction makes the fund a compelling and consistent credit allocation, and its differentiated returns also enable it to complement other credit allocations. The fund's lower credit beta profile should allow it to hold up well in environments where credit spreads[5] are widening, while its lower duration profile should be a positive in rising interest rate environments.

[1] Alpha is the excess return of an investment relative to its benchmark.
[2] Long positions benefit from credit improvement.
[3] Short positions benefit from credit deterioration.
[4] Duration measures a bond's sensitivity to changes in interest rates.
[5] Credit spreads measure the additional yield that investors demand for holding a bond with credit risk over a similar-maturity, high-quality government security.

Credit Exposure: Creating a Better Way

(Fig. 1) Fund strives for more flexible, alpha-oriented outcomes



Source: T. Rowe Price.
Green icons represent expected outperformance versus credit beta; red icon represents expected underperformance. For illustrative purposes only.
The expected performance for Dynamic Credit is relative to alternative credit indices such as investment grade corporates, high yield corporates, or emerging market bonds. Market environments and expected performance are based on the general strategy structure, but are not based on actual performance, nor intended as forward-looking performance projections. As with any investment, performance may vary and is subject to potential loss. Actual performance may differ significantly.

SPOTLIGHT ON CREDIT RESEARCH

The fund's repeatable process relies heavily on our global research platform of more than 300 people, who collaborate across investment strategies, asset classes, and geographies. Our team of credit analysts integrates proprietary environmental, social, and governance (ESG) factors as appropriate into the analysis. The table below provides examples of typical types of positions:

Sector	Industry	Long/Short	Description
High Yield	Automotive	Long	U.S.-based electric vehicle manufacturer positioned to compete with market leader Tesla. Bonds were secured by assets with a floating rate coupon that provided attractive risk/reward characteristics.
Investment-Grade Corporate	Utility	Long	European energy company that was remaking itself in 2022 to focus on green energy technology and was proving itself as a leader in the clean energy transition in Europe.
Convertible	Tech/Media/ Telecom	Long	A communications and media company, where the convertible bonds[6] offered exposure to an improving credit along with an attractive yield and the potential for exposure to a rising stock price.
High Yield	Health Care	Short	A U.S. health care company that was de-consolidating its businesses, leaving one entity over-leveraged and with fundamental business challenges. As a result, we anticipated that its credit spread would widen materially and shorted the credit through derivatives.

For illustrative purposes only. It is not intended to be investment advice or a recommendation to take any particular investment action.

As of March 2023. Subject to change.

[6] Holders of convertible bonds can convert the debt into equity if the stock trades at or above a predetermined price.

Three Primary Credit Evaluation Factors

When collaborating with our credit sector experts and evaluating individual credits for potential portfolio inclusion as either long or short positions, we ask three key questions:

- Is there a catalyst that could cause the credit to outperform? Depending on the type of credit, this could be a range of factors, such as a potential credit rating upgrade or downgrade for a corporate credit. For consumer-dependent credit like an asset-backed security (ABS) backed by auto loans, it could be an upturn in consumer payment trends.
- Is the position positively or negatively correlated[7] with the performance

Performing as Expected

(Fig. 2) Dynamic Credit Fund held up in volatile 2022

	Managed risk in volatile 2022					Seeking to deliver a smoother ride over credit cycles
	2022	Three Months	One Year	Two Years	Three Years	Since Fund Inception*
Dynamic Credit Fund	0.02%	0.80%	3.56%	0.55%	8.98%	3.84%
ICE BofA US 3-Month Treasury Bill Index	1.47	1.08	2.53	1.28%	0.90	1.30
Credit Beta Measures†						
MAC Custom Index‡	-9.18	3.01	-1.75	-1.74	4.82	2.57
iBoxx USD Liquid High Yield Index	-10.74	3.65	-3.25	-2.02	4.76	2.78
J.P. Morgan EMBI Global Core§	-18.37	1.91	-7.64	-7.25	-0.05	-0.43
iBoxx USD Liquid Investment Grade Index	-17.92	4.47	-6.44	-5.47	-0.96	2.24
Bloomberg U.S. Aggregate Index	-13.01	2.96	-4.78	-4.47	-2.77	0.72

Especially when compared to other credit beta risk.

Performance data quoted represents past performance and is not a reliable indicator of future performance. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. The fund's total return figures reflect the reinvestment of dividends and capital gains, if any. The fund's gross expense ratio is 1.25% as of the most recent prospectus.

As of March 31, 2023. Figures calculated in U.S. Dollars. All percentages for time periods greater than one year are annualized.
Sources: T. Rowe Price and Bloomberg Finance L.P.
*January 10, 2019.
† Indexes shown represent beta credit returns and are benchmarks used by ETFs: High Yield Bond, Emerging Market Bond, US Investment Grade Index and Bloomberg US Aggregate Bond Index, respectively. The ETF benchmarks are shown for illustrative purposes to demonstrate how each of the different sectors performed for the period when looking at passive indexes (peer proxies).
‡ MAC Custom index is represented by 1/3 Bloomberg US Corporate High Yield Bond Index, 1/3 S&P/LSTA Leverage Loan Index and 1/3 Bloomberg Emerging Markets Hard Currency Aggregate Index. The MAC benchmark is a TRP proprietary benchmark that is used to compare the MAC sectors against a comparable benchmark. Please see Additional Disclosures page for information about this S&P information and this Bloomberg information.
§ Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval.
Effective 1 May 2021, the benchmark for the Dynamic Credit Fund changed to the ICE BofAML US 3-Month Treasury Bill Index. Prior to this change, the benchmark was the 3 Month Libor in USD.

[7] Correlation measures how one asset class, style, or individual group may be related to another. A perfect positive correlation means that the correlation coefficient is exactly 1. This implies that as 1 security moves, either up or down, the other security moves in lockstep in the same direction. A perfect negative correlation means that 2 assets move in opposite directions, while a zero correlation implies no relationship at all.

of existing portfolio holdings? A meaningful negative correlation could indicate that the new position can provide diversification benefits by gaining when other exposures lose value.

- What is the asymmetry of the return profile? Essentially, will the price benefit more from a positive development than it suffers from a negative outcome—or vice versa? This can affect how a holding would fit into the fund's overall positioning in terms of sizing, diversification, and potential alpha generation.

In addition to addressing these three factors, our investment process tries to ensure that we are getting paid for each position's embedded credit beta,[8] volatility, and liquidity. Our dynamic, flexible, and alpha-oriented approach enabled the fund to deliver differentiated performance during the challenging market in 2022, when traditional credit sectors suffered amid rapidly rising rates.

Approach Well Suited for Unsettled Credit Environment

The fund's alpha-seeking but risk-aware approach is well suited for a range of market conditions, but it may be even more valuable in the current unsettled credit environment. We believe that our fundamental credit analysis process that generates forward-looking insights from a global research platform with broad sector expertise can help the fund identify and capitalize on inefficiencies ahead of the market.

WHAT WE'RE WATCHING NEXT

We have recently observed that banks are tightening their lending standards, which typically precedes the end of a credit cycle and rising defaults by two to three quarters. This changing environment may produce opportunities across the range of credit markets.

[8] Beta measures the volatility, or risk, of an investment relative to the risk of the broad market.

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Investments in high-yield bonds involve greater risk of price volatility, illiquidity, and default than higher-rated debt securities. Derivatives may be more volatile than other types of investments because they are generally more sensitive to changes in market or economic conditions. Short sales are speculative transactions with potentially unlimited losses; use of leverage can magnify the effect of losses.

Past performance is not a reliable indicator of future performance. All investments are subject to market risk, including the possible loss of principal. All charts and tables are shown for illustrative purposes only.

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ID0005850 (05/2023)
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