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Building better blends: Part 1
Balancing equity allocations

Many target date investors are concerned about containing investment costs. Allocating to select passive strategies can help this endeavor. But decisions about where to allocate to active or passive equity investments must avoid unnecessarily limiting the ability of the strategy to add value or broaden the opportunity set. Selecting the right active and passive equity building blocks has the potential to contain costs, target opportunities with the best potential to generate positive returns, and improve diversification. Striking that balance is the key to helping investors along their journey to feeling retirement certain.

Where to go active with equity allocations

Some investors believe that active equity strategies may be limited in their potential to add value. Global equity markets—especially U.S. large-cap equities—are simply viewed as too efficient for active managers to outperform the market and generate positive excess returns, net of costs, over time.

We believe this view is oversimplified. Our research suggests that the relative cost-effectiveness of passive and active approaches can vary widely across different equity market segments and investment styles. Our own target date strategies maintain sizable allocations to equities—particularly U.S. large-cap equities—throughout the glide path. To follow a universally passive approach across the equity size and style spectrum would unnecessarily limit the potential to add value.

We see areas like core U.S. equities as the best options for passive allocations within our target date solutions. They offer opportunities to gain efficient exposure, at lower cost and with relatively minimal tracking error.

A range of size- and style-based equity categories, conversely, offers greater potential to generate excess returns, net of fees.

We have identified the best options for active building blocks within our blend strategies among U.S. large-cap growth and value, U.S. mid-cap growth and value, U.S. small-cap growth and value, and international large-cap growth and value. We also believe a purely passive approach is less effective for emerging markets (EM) equities, as these markets are typically less efficient than developed global markets. Popular EM indexes also tend to be heavily concentrated in just a few countries.

Our target date solutions also include a dedicated allocation to hedged equity and real assets equities, which can enhance diversification and provide a potential hedge against inflation. In our view, the universe of passive investments does not currently offer an adequate alternative for this equity category.

Best Equity Options for Passive	Best Equity Options for Active
– U.S. large-cap core – U.S. mid-cap core – U.S. small-cap core	– U.S. large-cap growth and value – U.S. mid-cap growth and value – U.S. small-cap growth and value – International large-cap growth and value – Emerging markets

Reflects the views of the target date investment team. Not investment advice or a recommendation to buy or sell any security.

Conclusion

We aim to deliver investment outcomes that help investors on their path to feeling retirement certain. That demands a prudent approach to both cost containment and return generation. We believe that select actively managed equity strategies can add significant value for investors across a number of size-, style-, and sector-based equity sectors. Our target date solutions are designed to capture this potential while also featuring the cost advantages of passive investing where excess return opportunities appear less compelling.

For a glossary of financial terms, please visit: https://www.troweprice.com/en/us/glossary

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T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so they can feel more confident.

Investment risks: All investments are subject to market risk, including the possible loss of principal. The principal value of the target date strategies is not guaranteed at any time, including, if applicable, at or after the target date, which is the approximate year an investor plans to retire (assumed to be age 65). Investments in other strategies: The strategies bear the risk that underlying strategies will fail to successfully employ their investment mandates. One or more underlying strategy's underperformance or failure to meet its investment objective(s) as intended could cause the strategy to underperform similarly managed strategies. Interest rates: A rise in interest rates typically causes the price of a fixed rate debt instrument to fall and its yield to rise. Conversely, a decline in interest rates typically causes the price of a fixed rate debt instrument to rise and the yield to fall. International investing: Non-U.S. securities tend to be more volatile and have lower overall liquidity than investments in U.S. securities and may lose value because of adverse local, political, social, or economic developments overseas, or due to changes in the exchange rates between foreign currencies and the U.S. dollar. Emerging markets: Investments in emerging market countries are subject to greater risk and overall volatility than investments in the U.S. and other developed markets. See the product offering documents for more detail on the principal risks.

Diversification cannot assure a profit or protect against loss in a declining market.

Active investing may have higher costs than passive investing and may underperform the broad market or comparable passive funds with similar objectives. **Passive investing** may lag the performance of actively managed peers as holdings are not reallocated based on changes in market conditions or outlooks on specific securities.

Important Information

Call 1-800-225-5132 to request a prospectus or summary prospectus; each includes investment objectives, risks, fees, expenses, and other information you should read and consider carefully before investing.

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