QUARTERLY REVIEW

# T. Rowe Price Global High Income Fund – I Class

*As of 31 March 2024*

## PORTFOLIO HIGHLIGHTS

The portfolio performed in line with the ICE BofA Global High Yield Index for the three-month period ended March 31, 2024.

Relative performance drivers:

- Credit selection in services contributed to relative performance.
- Our off-benchmark allocation to bank loans added value.
- Selection and our overweight allocations in the cable operators and media industries detracted.

Additional highlights:

- We maintained our overweight to Europe, as it is a better-rated market with a yield pickup compared with the U.S.
- Positive fundamentals combined with favorable technical conditions and valuations remain supportive for the below investment-grade market as a whole, as does the promise of falling interest rates this year.

## FUND INFORMATION

| | |
|---|---|
| APIR | ETL0793AU |
| Inception Date of Fund | 4 May 2020 |
| Benchmark | ICE BofA Global High Yield Index (AUD Hedged) |
| Total Assets | $41,295,321AUD |
| Percent of Portfolio in Cash | 1.13% |

## PERFORMANCE

(NAV, total return in base currency)

| | | | | Annualised | |
|---|---|---|---|---|---|
| | **Three Months** | **Year-to-Date** | **One Year** | **Three Years** | **Since Inception 4 May 2020** |
| T. Rowe Price Global High Income Fund – I Class (Net - AUD)* | 1.66% | 1.66% | 11.28% | -0.52% | 4.03% |
| ICE BofA Global High Yield Index (AUD Hedged) | 1.79 | 1.79 | 9.94 | 0.21 | 4.58 |

## CALENDAR YEAR PERFORMANCE

(NAV, total return in base currency)

| **Calendar Years** | **2020⁂** | **2021** | **2022** | **2023** |
|---|---|---|---|---|
| T. Rowe Price Global High Income Fund – I Class (Net - AUD)* | 17.46% | 2.93% | -15.44% | 12.28% |
| ICE BofA Global High Yield Index (AUD Hedged) | 17.61 | 2.74 | -12.73 | 10.99 |

**Past performance is not a reliable indicator of future performance.**

Source for fund performance: T. Rowe Price.

* Net-of-fees performance is based on end-of-month redemption prices after the deduction of fees and expenses and the reinvestment of all distributions.

Figures include changes in principal value. Investment return and principal value will vary, and an account may be worth more or less at termination than at inception.

⁂ Since Inception 04 May 2020 through 31 December 2020

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# PERFORMANCE REVIEW

**Market Review**

The yield on the benchmark 10-year U.S. Treasury note rose 32 basis points to 4.20% over the period. The quarter began with some mixed economic data and cautious words from Federal Reserve officials. While consumers appeared to be in good shape as retail sales jumped 0.6% in December, for example, the manufacturing sector remained the weak leg in the expansion.

In early February, the U.S. Labor Department reported that employers added 353,000 nonfarm jobs in January, nearly double consensus estimates, while November and December's gains were also revised higher, due in part to an annual benchmark revision. Soon after, S&P Global and the Institute for Supply Management reported solid growth in their respective indexes of service sector activity, although their manufacturing readings remained more subdued.

The better growth brought some unwelcome inflation surprises later in the quarter, however. Core (less food and energy) inflation rose by 0.4% in both January and February, while producer prices jumped 0.6% and 0.4%, respectively. The core personal expenditures price index, the Fed's preferred inflation gauge, also rose more than expected, although the year-over-year increase continued creep toward the Fed's 2% target and ended February at 2.8%, its lowest level in roughly three years.

While hopes for a March rate cut faded early in the quarter, investors appeared pleasantly surprised by the summary of individual policymakers' rate, growth, and inflation expectations released after the Fed's March meeting. The median expectation remained for three cuts in 2024, with only slightly fewer cuts in following years. Fed Chair Jerome Powell also testified before Congress that policymakers were "not far" from having the confidence that inflation's downtrend will be sustained, enabling them to begin cutting rates.

European Central Bank (ECB) and Bank of England (BoE) policymakers began the period aiming to smother market expectations of an early reduction in rates, citing strong wage growth and services inflation. They were clearly more dovish by the March policy meetings as headline inflation continued to decelerate sharply and wage growth began to slow.

The ECB left its key deposit rate unchanged at a record 4.0%, while hinting that a reduction in June may be in the cards. ECB President Christine Lagarde acknowledged that "good progress" has been made toward the 2.0% inflation target but said that the Governing Council still needed to be more confident that prices were falling sustainably. "We will know a lot more in June," she said, adding that there was broad agreement on that point.

Meanwhile, the BoE kept its key interest rate unchanged at 5.25% for a fifth consecutive time, although the 8–1 vote in favor appeared to send a more dovish signal. Governor Andrew Bailey said: "We are not yet at the point where we can cut interest rates, but things are moving in the right direction." Later, Bailey told the Financial Times that rate cuts could be "in play" at future meetings.

The global high yield market's spread compressed (-43 bps) to 358 bps in the first quarter, according to the ICE BofA Global High Yield Index. Default rates remained relatively level across regions during the period. In the U.S. and Europe, the default rates decreased quarter over quarter to 1.67% and 1.41% from 2.08% and 1.52%, respectively. Meanwhile, the emerging markets default rate rose to 6.38% from 6.21% at the end of December.

**Services Segment Added Value**

Credit selection in the services segment was beneficial, partly due to Ascend Learning, which provides online educational content, software and analytics serving institutions, students and employers in health care and other licensure-driven professions. We believe that the company has an attractive business model, growth tailwinds in several key end markets, and should be relatively defensive in the event of an economic downturn. The company's 3Q23 earnings report showed that key areas of the business saw solid organic growth, and management's 2024 guidance surprised to the upside. The company's second lien loans steadily rallied from the mid-80s to high-90s throughout the first quarter.

**Positive Results From Bank Loans**

Our off-benchmark allocation to bank loans was beneficial, partly due to Duravant, a designer and manufacturer of automation equipment and aftermarket parts and services. The company continued to benefit from the secular tailwind of increasing adoption of automation technology. Additionally, the management team has sustained its track record of operational execution for over 16 years. Taken together, the company's secular growth and excellent management team have resulted in an impressive growth trajectory.

**Health Care Industry Contributed**

Security selection in the health care segment added value, partly due to for-profit hospital company Community Health Systems (CYH), which operates hospitals in non-urban and mid-sized markets across the U.S. Utilization continued to be strong as CYH saw positive volume momentum continue during 1Q24. Management expects at least another $60 million reduction in contract labor costs this year, about half of which should flow through to EBITDA. The mid-point of CYH's guidance assumes 70 basis points of margin expansion for the year, which should be achievable given volume and reimbursement growth, as well as stabilization in labor costs.

**Cable Operators Held Back Gains**

Security selection among cable operators was the primary detractor of relative results, largely due to the portfolio's holdings of Altice France. The change in strategy announced by the company's management in March to further reduce leverage in Altice France by forcing bondholders to take a haircut led to a significant negative price development, particularly within the unsecured bonds. Given the portfolio's overweight in the name, this had a meaningful negative performance impact. Nevertheless, we continue to hold the bonds as we think we can negotiate a better outcome for bondholders and investors in the portfolio than what is currently priced in by the market.

**Media Segment Dragged**

Selection in the media segment dragged, partly due to leading media company iHeartMedia (IHRT). The issuer came under pressure due to weaker core advertising revenue and forward guidance. When there is a pullback in the broader economy, advertising spend is typically one of the first expenses that companies reduce or eliminate. The credits also traded lower following a Moody's downgrade in December. However, IHRT subsequently reported better-than-feared 4Q23 results and management's 1Q24 outlook was close to consensus expectations.

Sector selection had a negative impact overall, largely due overweight allocations to the cable operators and media segments.

# PERFORMANCE POSITIONING AND ACTIVITY

We maintained our overweight to B rated names and underweight to BBs.

**Industry and Regional Positioning Mostly Unchanged**
Despite the intra-quarter volatility and negative developments, we maintained our position in Altice and continue to monitor the situation closely. Our investment in Altice results in an overweight allocation to cable operators, although this has reduced over the quarter. In other non-cyclical sectors, we maintained an overweight to the services segment, a diverse sector with plenty of opportunities to choose from.

We maintained our overweight to Europe, as it is a better-rated market with a yield pickup compared with the U.S. We have moved to a small overweight in emerging markets, although the majority of our exposure, particularly in the financials and energy industries, continued to be based in Latin America rather than Asia.

# MANAGER’S OUTLOOK

Increased volatility at the end of 1Q24 was mostly concentrated in highly levered, lower-quality names. Positive fundamentals combined with favorable technical conditions and valuations remain supportive for the below investment-grade market as a whole, as does the promise of falling interest rates this year.

Although yields in the 7.5% to 8.0% range appear somewhat low compared with the highs of around 9% at the end of October, they remain attractive relative to the yields seen during a longer period of recent history. Since 2013, yields have only been above 7.5% during the current inflation-driven cycle, the 2020 coronavirus pandemic sell-off, and the early 2016 commodity price crash.

High yield issuers’ fundamentals remain strong, despite some measures normalizing from historical highs. Although companies will be issuing new debt at higher rates this year, many will do so in a laddered manner with only a portion of their debt maturing over the next two years, while likely benefiting from falling interest rates in 2024.

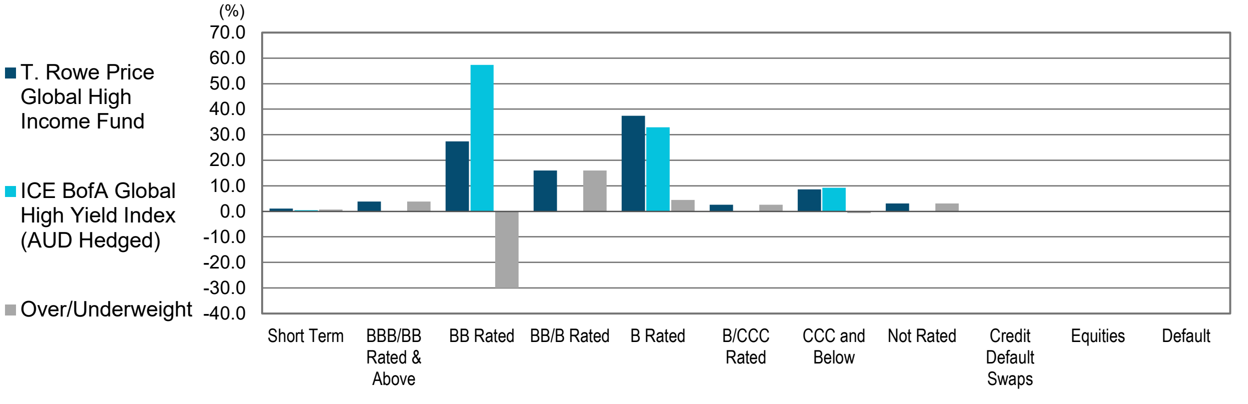
# PORTFOLIO POSITONING

## MARKET WEIGHTS BY REGION

| Region | Market Value (AUD equivalent) | % of Fund |
|---|---|---|
| United States | 19,670,293 | 47.83% |
| Canada | 690,770 | 1.68% |
| Europe* | 11,751,819 | 28.57% |
| Non Developed | 8,433,616 | 20.51% |
| International* | 282,802 | 0.69% |
| Short Term | 299,203 | 0.73% |

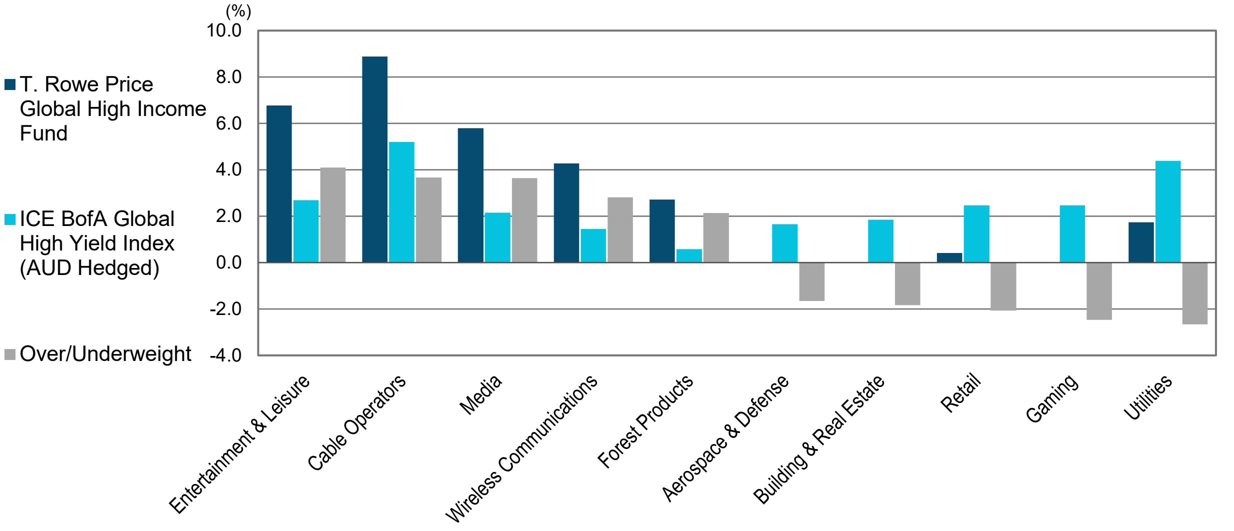
* Includes only developed countries.

## CREDIT QUALITY DIVERSIFICATION



# PORTFOLIO POSITONING

## SIGNIFICANT OVER/UNDERWEIGHT INDUSTRIES




# HOLDINGS

## TOP 10 ISSUERS

| Issuer | % of Fund |
|---|---|
| Petroleos Mexicanos | 2.5 |
| Teva Pharmaceutical Industries | 1.7 |
| Venture Global LNG | 1.5 |
| Verisure Midholding | 1.5 |
| HTA Group Ltd/Mauritius | 1.4 |
| Merlin Entertainments | 1.4 |
| Vmed O2 UK | 1.2 |
| Loxam SAS | 1.1 |
| RCS Management | 1.1 |
| Gruenenthal Pharma GmbH & Co KG | 1.1 |

# PORTFOLIO MANAGEMENT TEAM

| | Managed Fund Since: | Joined Firm: |
|---|---|---|
| Michael Della Vedova | 2020 | 2009 |
| Michael Connelly | 2020 | 2005 |
| Samy Muaddi | 2020 | 2006 |

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T. Rowe Price uses a custom structure for sector and industry reporting for this product.

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Certain numbers in this report may not equal stated totals due to rounding. Unless otherwise stated, all data is as of the report production date.

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