

U.S. Equity Research Fund (PRCOX)

As of December 31, 2025



T. Rowe Price

Portfolio Highlights

The portfolio performed in line with the S&P 500 Index for the three-month period ended December 31, 2025.

Relative performance drivers:

- + Industrials and Business Services (stock selection)
- + Financials (stock selection)
- Communication Services (stock selection)
- Materials (stock selection)

Fund Information

CUSIP	77954P108
Inception Date of Fund	November 30, 1994
Benchmark	S&P 500 Index
Expense Information (as of the most recent Prospectus)	0.45%
Total Assets (all share classes)	\$16,278,944,164
Percent of Portfolio in Cash	0.3%

Performance (%) (NAV, total return performance > 1 year is annualized)

	3m	1yr	3yrs	5yrs	10yrs	15yrs
U.S. Equity Research Fund	2.63	16.34	24.05	14.68	15.14	14.25
S&P 500 Index	2.66	17.88	23.01	14.42	14.82	14.06

Calendar Year Performance (%) (NAV, total return)

	Inception Date	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
U.S. Equity Research Fund	Nov 30 1994	10.23	23.72	-4.63	32.46	19.81	27.98	-18.80	29.80	26.42	16.34
S&P 500 Index		11.96	21.83	-4.38	31.49	18.40	28.71	-18.11	26.29	25.02	17.88

Past performance is not a guarantee or a reliable indicator of future results. 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. To obtain the most recent month-end performance, visit [troweprice.com](https://www.troweprice.com).

The Fund's total return figures reflect the reinvestment of dividends and capital gains, if any.

The fund(s) may have other share classes available that offer different investment minimums and fees. See the prospectus for details.

Risks: Sector exposure: Issuers in the same economic sector may be similarly affected by economic or market events, making the fund more vulnerable to unfavorable developments in that economic sector than funds that invest more broadly. **Index correlation:** Because the fund weights each sector and industry approximately the same as the Index, the fund's ability to broadly reallocate its portfolio due to changes in outlook for a particular sector or industry is more limited than other actively managed funds with greater flexibility to overweight or underweight certain industries due to changes in market conditions. As a result, the fund's performance may lag the performance of other actively managed funds with more flexible investment programs. See the prospectus for more detail on the fund's principal risks.

Performance Review

U.S. Equities Overcame Valuation, Spending Headwinds to End Year Higher

U.S. stocks finished the fourth quarter higher, with interest rate cuts helping overcome investor concerns about valuations and capital expenditure for companies within the AI trade. Even as the government was shut down in October and sharp tariff rhetoric toward China caused macroeconomic uncertainty, equities advanced in the month thanks to largely strong corporate earnings and a series of agreements between companies meant to accelerate AI development. In November, hawkish commentary from the U.S. Federal Reserve surrounding further rate cuts and scrutiny over valuations and spending in the AI space created headwinds early in the month, but softer economic readings as the month progressed sparked hopes for a December interest rate cut and helped stocks finish higher. In December, the Federal Reserve cut interest rates by 25 basis points, but equities were mixed as further AI scrutiny and unfavorable macroeconomic data led to more muted returns as the year ended.

Relative Contributors

Industrials and Business Services (stock selection)

- **Uber Technologies:** An underweight position in global transportation-as-a-service provider Uber Technologies contributed to relative performance. Shares declined after the company reported mixed third-quarter results, which included disappointing profits due to legal and regulatory matters, and issued weaker-than-expected fourth-quarter earnings despite solid gross bookings guidance. Investors were also concerned about competition in the autonomous rideshare space and increasing regulatory pressure in Europe. While we like Uber's growing dominance across numerous global markets, we remain cautious of potential competitive pressures such as Tesla's robo-taxi service.
- **Eaton:** Not owning power management equipment and systems designer and manufacturer Eaton aided relative returns. Shares declined after the company's third-quarter revenue fell short of investor expectations, due in part to weak performance in the company's Vehicle and eMobility businesses. Shares were also pressured in December by concerns over the stock's high valuation. We are underweight in favor of more attractive risk/reward opportunities elsewhere in the portfolio.

Financials (stock selection)

- **Coinbase Global:** Not owning Coinbase Global, a cryptocurrency wallet and exchange platform, added value. Shares fell as bitcoin prices declined sharply during the period due to regulatory concerns, interest rate expectations, and broader macroeconomic uncertainty. The company is highly levered to bitcoin, charging high trading fees, with the prices of bitcoin and ethereum as key drivers to revenue and profitability. We have chosen to invest in higher-conviction opportunities elsewhere in the portfolio.
- **Citigroup:** An overweight position in money center bank Citigroup added value. During the period, shares benefited from encouraging progress in the company's restructuring efforts, positive investor reactions to announced executive leadership changes, and favorable economic conditions, including U.S. Federal Reserve interest rate cuts. We are encouraged by firm's successful turnaround strategy and think Citigroup should benefit from a more favorable regulatory environment under the Trump administration.

Relative Detractors

Communication Services (stock selection)

- **T-Mobile US:** An overweight position in U.S. wireless carrier T-Mobile US hampered relative returns. Despite record customer additions in the third quarter and management raising its full-year guidance across key metrics, shares were pressured by concerns over elevated capital expenditures for network transformation and the UScellular integration, increasing wireless competition, the stock's premium valuation relative to peers, and its high debt level. In our view, T-Mobile has the potential to become the best wireless network in the U.S. as it realizes synergies from the Sprint merger, increases its exposure to suburban and rural areas as well as the enterprise wireless market segment, and further expands its 5G network leadership.
- **Warner Bros Discovery:** Not owning media and entertainment conglomerate Warner Bros Discovery detracted from relative returns. Shares rose during the period after the company announced it was considering strategic alternatives in response to recent interest from potential buyers. While the company disclosed in mid-2025 that it plans to split into two separate companies- Warner Bros and Discovery-Netflix reached a deal during the quarter to acquire Warner Bros Discovery's HBO and HBO Max assets while Paramount Skydance launched a hostile takeover bid for the company and Comcast also submitted bids for some of its assets. We do not own Warner Bros Discovery as we have concerns that the company won't be able to maintain its HBO Max growth while also promising synergies from the company's merger in 2022, an aggressive delevering plan, and an increase in content investment.

Materials (stock selection)

- **Newmont:** Not owning Newmont, the second-largest gold miner in the world, hurt relative performance as the stock benefited from operational leverage to gold prices, which reached record highs on economic uncertainty and recent interest rate cuts. We don't own the stock given continued operational challenges and poor capital allocation. Our exposure to gold is in lower-cost royalty companies with more attractive balance sheets and fewer merger and acquisition risks.
- **Linde:** An overweight position in industrial gas company Linde detracted from relative performance as shares fell and underperformed sector peers during the period. The stock's decline was driven in part by macroeconomic headwinds, including slowing growth in Europe and Asia, and management's soft guidance for the company's current quarter and full year. We believe Linde possesses durable assets with low cyclicality and like its continued self-help cost actions from its merger with Praxair and attractive secular growth opportunities tied to decarbonization.

Portfolio Positioning And Activity

A team of approximately 30 industry-focused T. Rowe Price analysts is responsible for selecting stocks for the fund, subject to the daily oversight of the portfolio managers who work closely with the analysts. The portfolio managers allocate capital to each analyst in proportion to the weight of the stocks they follow within the S&P 500. The analysts overweight the most attractive stocks, underweight the least attractive stocks, and opportunistically add high-conviction, nonindex securities from their coverage area.

Given the sector, industry and style-neutral position of the strategy, we would expect to generate the majority of our alpha from stock selection. The majority of the tracking error is due to stock-specific risk.

Significant Overweights

- **T-Mobile US:** T-Mobile US is a U.S. wireless carrier. Following its 2020 acquisition of Sprint, we think T-Mobile is well positioned for accelerating revenue and free cash flow growth. In our view, T-Mobile has the potential to become the best wireless network in the U.S. as it realizes synergies from the Sprint merger, increases its exposure to suburban and rural areas as well as the enterprise wireless market segment, and further expands its 5G network leadership.

- **Chubb:** Chubb is a best-in-class global property and casualty (P&C) operator. We like that the company enjoys a high growth rating in the industry and a globally diversified book that includes leadership positions in all major primary insurance segments. Additionally, higher interest rates are helping to drive growth in investment income. We think the stock is attractively valued and believe it will continue to benefit from the rising P&C cycle.
- **Citigroup:** Citigroup is a regulated money center bank with scaled operations in U.S. credit cards, capital markets, and Treasury and trade services. We like that Citigroup has been executing on its expense rationalization plan and turnaround strategy. We also think Citigroup should benefit from a more favorable regulatory environment under the Trump administration.
- **Broadcom:** Broadcom is a designer, developer, manufacturer, and global supplier of a wide range of semiconductor and infrastructure software products. We like Broadcom's world-class application-specific integrated circuits (ASIC) and networking switch technology as well as its meaningfully improving fundamentals. We think the company's operating profit will inflect higher through 2026, thanks to both new ASIC projects at Meta Platforms and OpenAI and accelerated AI networking upgrade. We also believe the equity narrative will remain in favor of Broadcom, as ASIC continues gaining share from graphics processing units while Broadcom will also gain more networking share from peers, including NVIDIA and Marvell Technology.
- **T-Mobile US:** We added to our position in U.S. wireless carrier T-Mobile on weakness and as its valuation approached historically cheap levels after shares fell despite record customer additions in the third quarter and a full-year guidance raise across key metrics. The stock was pressured by elevated capex for network transformation and U.S. cellular integration and headwinds from increased competition. We believe that T-Mobile has the potential to become the best wireless network in the U.S., as it expands its 5G network leadership; increases exposure to rural, suburban, and enterprise wireless markets; and realizes synergies from the Sprint acquisition.
- **Advanced Micro Devices:** We added to our position in Advanced Micro Devices, which specializes in developing high-performance computing processors and graphics processors used in consumer electronics and data centers, on attractive relative upside after a period of underperformance. We forecast continued AI hyperscaler spend over the next three years, given signs of accelerating demand growth in both the company's graphics processing unit and central processing unit business segments, which we think the market is underappreciating.
- **IBM:** We added to our position in technology and consulting company IBM as we believe the marketing is underestimating the company's positioning within the emerging quantum computing trend and its potential to benefit from overall AI. While we acknowledge that commercialization of this nascent quantum technology may remain distant, IBM is the undisputed leader in the field among industry experts.

Significant Underweights

- **Berkshire Hathaway:** Berkshire Hathaway is a large conglomerate. We have concerns about its management succession plans, high absolute and relative valuation, and slowing growth and have chosen to invest in more attractive risk/reward opportunities in the insurance space. We prefer Chubb.
- **Wells Fargo:** Wells Fargo is a U.S. bank. We are underweight as we believe forward estimates already reflect the company's potential balance sheet growth after its asset cap lift, and we don't think Wells Fargo has the same exposure to net interest margin accretion potential as peers. We prefer Bank of America.
- **AT&T:** AT&T is a provider of communications and digital entertainment services. We believe that increasing competitive pressure in the wireless space coupled with a secular decline in DirecTV and AT&T's wireline and telecommunications operations will weigh on the company's profitability. In addition, AT&T is caught between a high dividend payout ratio and a high debt level as it enters the 5G investment cycle, which we think will hamper financial flexibility for years to come. We prefer T-Mobile US.
- **Verizon Communications:** Verizon Communications is a wireless operator. We believe the company is facing increasing competitive pressures from T-Mobile US's lead position in 5G as well as limited free cash flow growth opportunity in its wireless operations due to competition from cable. We prefer T-Mobile US.

Significant Purchases

- **Lam Research:** We initiated a position in Lam Research, a large semiconductor capacity manufacturer with a dominant position in etching, as part of an effort to prioritize stocks with a differentiated thesis and attractive relative upside. We see improving fundamentals in semi-caps after a downturn in the industry. We think the company will benefit from improving demand signals in memory as well as new transistor structures, advanced packaging, and materials-driven innovation. The company expects continued growth in the year ahead, as global companies fill the revenue gap left by China's slowdown.

Significant Sales

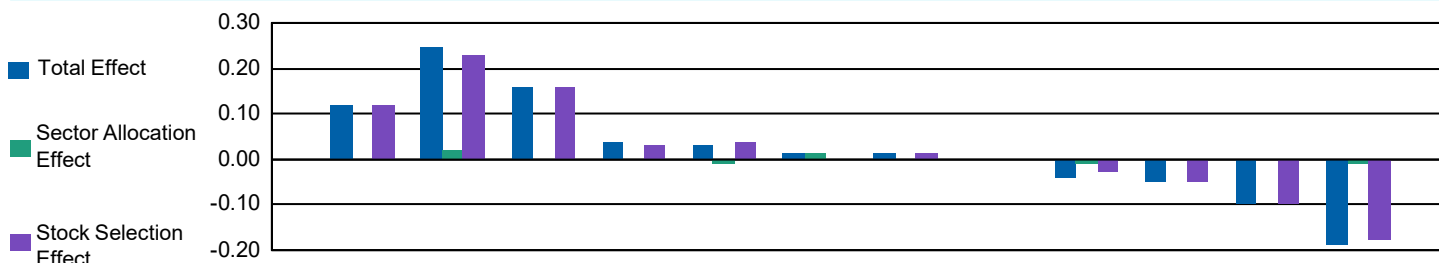
- **Apple:** We trimmed our position in software and personal computing giant Apple on strength as we felt valuation was full. We continue to focus on the importance of AI integration but maintain our view that the company is uniquely sheltered from existential AI risk as its products are the main vehicle in which people engage with large language models.
- **NVIDIA:** We trimmed our position in NVIDIA, a semiconductor company that designs graphics processing units used for powering AI infrastructure, during the period to manage our AI processor exposure. The stock remains a leader in the space, but we believe it faces increased long-term competition from other AI chip providers, as hyperscalers signed additional contracts with competitors and the performance improvement of Google's Tensor Processing Unit added challenges.
- **Texas Instruments:** We exited our position in Texas Instruments, the largest manufacturer of analog semiconductors, earlier in the quarter on concerns about analog commoditization and the increasing attractiveness of memory names on a relative basis. Subsequently, we reintroduced Texas Instruments back to the portfolio to add some more exposure to analog in an effort to manage memory bet sizes within the sleeve, though overall it remained one of our largest sales.
- **AbbVie:** We trimmed our position in biopharmaceutical company AbbVie on strength as the stock's valuation reached historical extremes on increased expectations for pharmaceuticals following Pfizer reaching a most-favored-nation prescription drug pricing deal with the Trump administration. The deal signaled a better-than-feared policy outcome, which ignited the sectorwide rally that saw AbbVie's shares increase.

Organizational Update

During the fourth quarter, Chris Graff (Communication Services) left the strategy and Grant Yuan (Consumer Discretionary) joined the strategy.

Quarterly Attribution

Sector Attribution Data: Fund vs S&P 500 Index (3 months ended December 31, 2025) (%)



	Total	Indust & Bus Svcs	Financials	Real Estate	Health Care	Consumer Staples	Energy	Utilities	Info Tech	Consumer Disc	Materials	Comm Svcs
Over/Under Weight	N/A	-0.91	0.62	-0.07	0.00	-0.19	0.01	0.00	0.81	-0.24	0.01	-0.42
Fund Performance	2.77	4.10	3.20	-1.12	12.13	0.11	1.74	-1.27	1.32	0.27	-4.40	5.45
Index Performance	2.66	0.88	2.02	-2.86	11.68	0.01	1.53	-1.40	1.42	0.71	1.12	7.26
Sector Allocation Effect	N/A	0.02	0.00	0.00	-0.01	0.01	0.00	0.00	-0.01	0.00	0.00	-0.01
Stock Selection Effect	0.12	0.23	0.16	0.03	0.04	0.00	0.01	0.00	-0.03	-0.05	-0.10	-0.18
Total Effect	0.12	0.25	0.16	0.04	0.03	0.01	0.01	0.00	-0.04	-0.05	-0.10	-0.19

Top 5 Relative Contributors vs. S&P 500 Index (3 Months ended December 31, 2025)

Security	% of Equities	Net Stock Return Contribution (%)	Net Stock Return Contribution (bps)
Uber Technologies, Inc.	0.1	-16.60	5
Coinbase Global, Inc.	0.0	0.00	4
Broadcom Inc.	3.0	5.10	4
Micron Technology, Inc.	0.6	70.75	4
Eaton Corporation Plc	0.0	0.00	4

Top 5 Relative Detractors vs. S&P 500 Index (3 Months ended December 31, 2025)

Security	% of Equities	Net Stock Return Contribution (%)	Net Stock Return Contribution (bps)
T-Mobile Us, Inc.	0.9	-14.76	-9
Warner Bros.	0.0	0.00	-4
Discovery, Inc.	0.0	0.00	-4
Applied Materials, Inc.	0.3	18.27	-4
Wells Fargo & Company	0.2	11.78	-4
Netflix, Inc.	0.7	-21.80	-3

Net contribution is calculated versus a specific benchmark. It is the difference between the security's absolute contribution to the portfolio and the security's absolute contribution to the benchmark. This reflects the amount the security has impacted relative return.

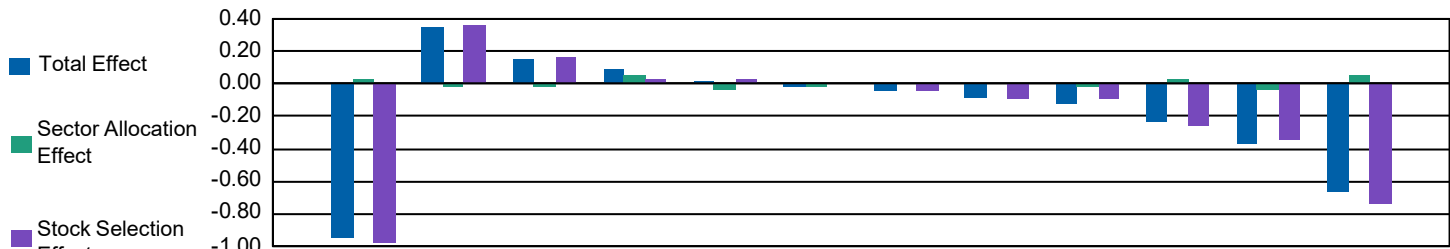
Source: T. Rowe Price. Stock return reflects reinvestment of dividends and capital gains and is not representative of the Fund's performance.

Past performance is not a guarantee or a reliable indicator of future results. Analysis represents the total performance of the portfolio as calculated by the FactSet attribution model and is inclusive of other assets. Non-equity positions are excluded from structure shown. Returns will not match official T. Rowe Price performance because FactSet uses different exchange rate sources and does not capture intra-day trading. Performance for each security is obtained in the local currency and, if necessary, is converted to USD using an exchange rate determined by an independent third party. Figures are shown with gross dividends reinvested.

Sources: Financial data and analytics provider FactSet. Copyright 2026 FactSet. All Rights Reserved. MSCI/S&P GICS Sectors; Analysis by T. Rowe Price. Figures are shown gross of fees. Returns would be lower as a result of the deduction of such fees.

12-Month Attribution

Sector Attribution Data: Fund vs S&P 500 Index (12 months ended December 31, 2025) (%)



	Total	Indust & Bus Svcs	Financials	Consumer Staples	Real Estate	Energy	Materials	Utilities	Comm Svcs	Health Care	Consumer Disc	Info Tech
Over/Under Weight	N/A	-0.91	0.62	-0.19	-0.07	0.01	0.01	0.00	-0.42	0.00	-0.24	0.81
Fund Performance	16.93	24.65	16.29	4.34	5.14	8.46	7.25	12.49	32.50	11.86	3.15	21.60
Index Performance	17.88	19.42	15.02	3.90	3.35	8.68	10.55	16.04	33.55	14.60	6.01	24.04
Sector Allocation Effect	0.03	-0.01	-0.02	0.05	-0.03	-0.01	0.00	0.00	-0.02	0.03	-0.03	0.06
Stock Selection Effect	-0.98	0.37	0.17	0.03	0.03	0.00	-0.05	-0.09	-0.10	-0.26	-0.34	-0.74
Total Effect	-0.95	0.36	0.16	0.09	0.01	-0.02	-0.05	-0.08	-0.12	-0.23	-0.37	-0.67

Top 5 Relative Contributors vs. S&P 500 Index (12 Months ended December 31, 2025)

Security	% of Equities	Net Stock Return Contribution (%)	Net Stock Return Contribution (bps)
Advanced Micro Devices, Inc.	0.7	97.53	12
Citigroup Inc.	0.6	70.37	12
First Solar, Inc.	0.1	48.22	11
Broadcom Inc.	3.0	50.63	8
Vertiv Holdings Co.	0.2	49.41	8

Top 5 Relative Detractors vs. S&P 500 Index (12 Months ended December 31, 2025)

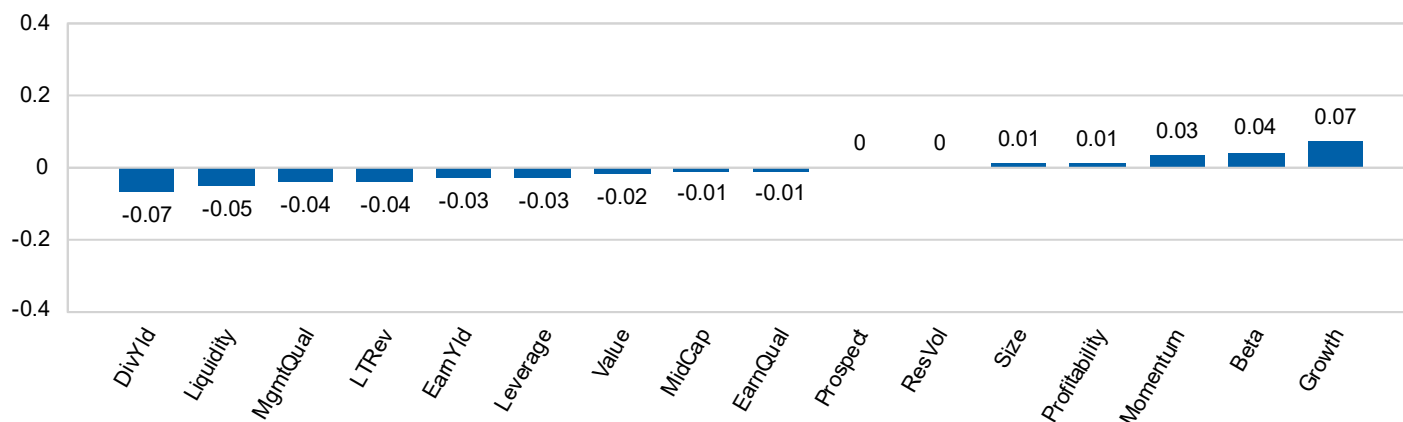
Security	% of Equities	Net Stock Return Contribution (%)	Net Stock Return Contribution (bps)
Palantir Technologies Inc.	0.7	59.73	-22
Newmont Corporation	0.0	0.00	-14
Lam Research Corporation	0.4	72.56	-14
Rtx Corporation	0.2	61.47	-12
Salesforce, Inc.	0.3	-20.24	-10

Net contribution is calculated versus a specific benchmark. It is the difference between the security's absolute contribution to the portfolio and the security's absolute contribution to the benchmark. This reflects the amount the security has impacted relative return. Source: T. Rowe Price. Stock return reflects reinvestment of dividends and capital gains and is not representative of the Fund's performance.

Past performance is not a guarantee or a reliable indicator of future results. Analysis represents the total performance of the portfolio as calculated by the FactSet attribution model and is inclusive of other assets. Non-equity positions are excluded from structure shown. Returns will not match official T. Rowe Price performance because FactSet uses different exchange rate sources and does not capture intra-day trading. Performance for each security is obtained in the local currency and, if necessary, is converted to USD using an exchange rate determined by an independent third party. Figures are shown with gross dividends reinvested. Sources: Financial data and analytics provider FactSet. Copyright 2026 FactSet. All Rights Reserved. MSCI/S&P GICS Sectors; Analysis by T. Rowe Price. Figures are shown gross of fees. Returns would be lower as a result of the deduction of such fees.

Portfolio Positioning

Barra Risk Factors for U.S. Equity Research Fund (Active Weights)



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Risk exposures of less than 0.2 are not statistically significant.

Sector Diversification - Changes Over Time vs. S&P 500 Index (%)

Sector	Fund 12/31/24	Fund 9/30/25	Fund 12/31/25	Benchmark 12/31/25
Info Tech	32.4	35.1	35.2	34.4
Financials	14.0	14.0	14.0	13.4
Comm Svcs	9.4	10.2	10.2	10.6
Cons Disc	11.4	10.5	10.2	10.4
Health Care	10.3	8.8	9.6	9.6
Indust & Bus Svcs	7.3	7.3	7.3	8.2
Cons Stpls	5.3	4.7	4.5	4.7
Energy	3.3	3.0	2.8	2.8
Utilities	2.3	2.4	2.3	2.2
Materials	1.8	1.8	1.8	1.8
Real Estate	1.8	1.9	1.8	1.8

Largest Purchases

Issuer	Sector	% of Fund 12/31/25	% of Fund 9/30/25
Lam Research (N)	Info Tech	0.4	0.0
T-Mobile US	Comm Svcs	0.9	0.7
Advanced Micro Devices	Info Tech	0.7	0.4
IBM	Info Tech	0.5	0.2
Applied Materials (N)	Info Tech	0.3	0.0
Seagate Technology Holdings (N)	Info Tech	0.2	0.0
KLA	Info Tech	0.5	0.3
Alliant Energy	Utilities	0.2	0.0
CRH (N)	Materials	0.1	0.0
Martin Marietta Materials (N)	Materials	0.1	0.0

Largest Sales

Issuer	Sector	% of Fund 12/31/25	% of Fund 9/30/25
Apple	Info Tech	6.8	6.8
Texas Instruments	Info Tech	0.1	0.3
Cadence Design Systems (E)	Info Tech	0.0	0.2
AT&T (E)	Comm Svcs	0.0	0.2
Rockwell Automation (E)	Indust & Bus Svcs	0.0	0.2
Electronic Arts (E)	Comm Svcs	0.0	0.2
AbbVie	Health Care	0.6	0.8
Motorola Solutions (E)	Info Tech	0.0	0.1
Valero Energy	Energy	0.1	0.3
Bank of America	Financials	0.8	0.9

(N) New Position

(E) Eliminated

A purchase or sale that occurred as a result of a corporate action where the Portfolio Manager had no discretion, if any, will not be displayed. Securities are shown in order by their total net cost and proceed values. Net is defined as total cost of purchases less total proceeds of sales.

Holdings

Major Position Changes

Issuer	Industry	% of Fund 12/31/25	% of Fund 9/30/25	Difference (%)
Alphabet	Interactive Media & Services	5.5	4.4	1.1
Eli Lilly and Co	Pharmaceuticals	1.6	1.1	0.5
Lam Research (N)	Semicons & Semicon Equip	0.4	0.0	0.4
Advanced Micro Devices	Semicons & Semicon Equip	0.7	0.4	0.3
IBM	IT Services	0.5	0.2	0.3
Microsoft	Software	6.3	7.0	-0.7
Meta Platforms	Interactive Media & Services	2.6	3.0	-0.4
Netflix	Entertainment	0.7	1.1	-0.4
Oracle	Software	0.6	0.8	-0.2
Texas Instruments	Semicons & Semicon Equip	0.1	0.3	-0.2

(N) New Position

(E) Eliminated

Major position changes are based on security purchases and sales as well as fluctuations in market value.

Top 10 Issuers

Issuer	Industry	% of Fund	% of S&P 500 Index
NVIDIA	Semicons & Semicon Equip	8.1	7.8
Apple	Tech. Hard., Stor. & Periph.	6.8	6.9
Microsoft	Software	6.3	6.2
Alphabet	Interactive Media & Services	5.5	5.6
Amazon.com	Broadline Retail	3.9	3.8
Broadcom	Semicons & Semicon Equip	3.0	2.8
Meta Platforms	Interactive Media & Services	2.6	2.5
Tesla	Automobiles	2.1	2.2
Eli Lilly and Co	Pharmaceuticals	1.6	1.5
JPMorgan Chase	Banks	1.4	1.5

Top 5 Over/Underweight Positions vs. S&P 500 Index

Issuer	Industry	% of Fund	% of Benchmark	Over/ Underweight (%)
T-Mobile US	Wireless Telecommunication Services	0.9	0.2	0.7
NVIDIA	Semicons & Semicon Equip	8.1	7.8	0.4
Chubb	Insurance	0.5	0.2	0.3
Citigroup	Banks	0.6	0.4	0.3
Broadcom	Semicons & Semicon Equip	3.0	2.8	0.2
Berkshire Hathaway CL A	Financial Services	1.0	1.6	-0.5
Wells Fargo	Banks	0.2	0.5	-0.3
AT&T	Diversified Telecom Services	0.0	0.3	-0.3
Verizon Communications	Diversified Telecom Services	0.0	0.3	-0.3
RTX	Aerospace & Defense	0.2	0.4	-0.3

Industry Spotlight

T. Rowe Price equity research analyst Bill Ledley manages investments in industrials, including electrical equipment, machinery, industrial distributors, and industrial technology, in the US Structured Research Strategy (SRS). Bill earned his M.B.A. from Columbia Business School, where he was a member of the Value Investing Program. Bill earned his undergraduate degree in economics and finance from Bentley University and began his investment experience in 2014. Prior to joining T. Rowe Price, he was a research associate at Capital Group covering a broad range of companies across energy, utilities, restaurants, and Latin American consumer/health care. He was also employed by Cowen and Company as an equity research associate covering aerospace, defense, and industrial stocks. Bill joined T. Rowe Price in 2022 and is a member of the Investment Advisory Committees for the US Value Equity, Global Industrials Equity, and US Structured Research Equity Strategies.

At T. Rowe Price, Bill believes he is more supported and empowered to be the expert on his coverage area compared with his buy-side peers. Additionally, he appreciates his partnerships and collaboration opportunities with other T. Rowe Price analysts and portfolio managers across various growth, value, core, mid-cap, large-cap, and global funds and believes they expose him to a broader range of views and insights. He recently partnered with a semiconductor analyst based in Asia who has provided him with a differentiated view on the data center infrastructure cycle.

Bill's general approach to evaluating potential investment opportunities is consistent across his coverage, although his target valuation multiples can vary a bit. He uses a mix of price-to-free cash flow; price-to-earnings; and enterprise value-to-earnings before interest, taxes, depreciation, and amortization ratios to value companies in his space. However, his valuation process is the same for each company in that he forecasts financials five years out and then applies valuation multiples to the relevant periods to derive his one- and three-year price targets.

Bill views SRS as the best way to express conviction in his investment theses, and he aligns his SRS portfolio with his fundamental insights. Bill's sleeve has multiple, overlapping sectors/groups across electrical equipment, machinery original equipment manufacturers, industrial distributors, and industrial tech suppliers. As a result, Bill focuses primarily on company-specific fundamentals to differentiate between his opportunity set and for sizing his SRS positions. However, he does monitor relative end market exposures between companies that most closely compete against one another. For instance, he owns Vertiv Holdings (VERT) and Hubbell (HUBB) rather than Eaton (ETN) as they give him fundamental exposure to data centers and utilities without exposing his sleeve to the risk of Eaton's more cyclical, globally exposed portfolio. Likewise, Bill believes both Caterpillar (CAT) and GE Vernova (GEV) have excellent exposure to data center power, but he prefers Caterpillar's construction and mining franchises over GE Vernova's wind and electrical equipment franchises.

In Bill's coverage area, prominent themes include surging data center capital expenditures, the enduring need to modernize the U.S. power grid, and the persistent advance of technological innovation. Bill believes the best way to invest behind these themes is by owning Vertiv Holdings, Hubbell, Caterpillar, and Keysight Technologies (KEYS)-all of which have the leading franchises in their respective industries.

Keysight Technologies, a global leader in test and measurement (T&M) solutions for the commercial communications, networking, aerospace and defense, automotive, semiconductor, and electronics industries, is a top overweight position in Bill's sleeve. Bill likes that Keysight's broad portfolio enables customers to innovate more effectively and efficiently. He believes the company's dominant position in electronic T&M provides a unique opportunity to benefit from growing innovation across multiple industries. Keysight's primary sales driver, customer research and development spending, grows mid-single digits annually and should increasingly skew toward opportunities where the company's leading-edge solutions are required. In addition, an under-levered balance sheet and strong free cash flow generation offer ample opportunity to drive shareholder value, in his view.

Vertiv Holdings, a leading supplier of equipment and services for data centers, communication networks, and commercial and industrial facilities, is a non-index holding and another large overweight position in Bill's sleeve. The company designs, manufactures, and services critical pieces of infrastructure and provides a full suite of services including project design/management and equipment life cycle service and support. As Vertiv is the leading supplier of data center infrastructure, Bill likes that the company offers the potential for option-like outcomes tied to AI-driven investment. He thinks that the company's organic growth should be a levered function of data center investment as it would capture megawatt growth in both its power management and thermal management franchises. An emergent liquid cooling opportunity bolsters Vertiv's organic growth as rack densities push above 50kw. Furthermore, Bill believes Vertiv has plenty of runway to increase margins closer to electrical industry peers driven by healthy incremental gross margins and improving expense efficiency. Bill likes that, with a healthy balance sheet, growing free cash flow, and de minimis calls on cash, Vertiv is set to potentially return meaningful amounts of cash via buybacks and dividends.

Conversely, Eaton, which designs and manufactures power management equipment and systems for the electrical equipment, aerospace, and vehicles end markets, is a top underweight position in Bill's sleeve. Bill doesn't own the stock as he believes Eaton's more cyclically exposed, globally focused portfolio diminishes the company's ability to fully capture growth in data center and utility capex, whereas Vertiv Holdings and Hubbell are much closer to pure plays on those markets, respectively. Additionally, Bill sees Eaton's core electrical categories becoming increasingly competitive, which will jeopardize the company's margin expansion over the next few years. Last, Bill sees increasing risk that Eaton is poorly allocating shareholder capital into capital expenditures and speculative acquisitions.

Looking ahead, Bill remains optimistic over the next year about the prominent themes mentioned above. He thinks electronic test and measurement should enjoy accelerating growth, powered by increasing research and development in commercial communications, data centers, aerospace and defense, and semiconductors. Likewise, Bill believes that data center and utility capex will continue at a robust pace to meet the growing demand for AI-powered computing. Within data centers, Bill is specifically optimistic about the growing penetration of liquid cooling applications to meet the thermal management requirements of increasingly powerful chips. Finally, Bill owns Deere (DE) as he is optimistic that demand for agricultural machinery will rebound from 25+ year lows over the next 12 to 24 months.

Portfolio Management

	Managed Since	Joined Firm
Ann Holcomb	2015	1996
Jason Polun	2015	2003
Jason Nogueira	2021	2004

Additional Disclosures

Consider the investment objectives, risks, and charges and expenses carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, call 1-800-638-7780 or visit troweprice.com. Read it carefully.

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Unless otherwise noted, index returns are shown with gross dividends reinvested.

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