QUARTERLY REVIEW

# Floating Rate Fund

*As of March 31, 2024*

## PORTFOLIO HIGHLIGHTS

The portfolio underperformed the Morningstar LSTA Performing Loan Index for the three-month period ended March 31, 2024.

Relative performance drivers:
- Credit selection in the services segment contributed.
- Selection in the information technology segment added value.
- Security selection among cable operators was the top relative performance detractor.

Additional highlights:
- We trimmed positions in the health care and entertainment and leisure segments to make room for more attractive opportunities.
- We believe elevated financial markets volatility both up and down the risk spectrum makes the case for active management in the loan asset class.

## FUND INFORMATION

| | |
|---|---|
| Symbol | PRFRX |
| CUSIP | 87279B106 |
| Inception Date of Fund | July 29, 2011 |
| Benchmark | Morningstar LSTA Performing Loan Index |
| Expense Information (as of the most recent Prospectus) | 0.78% |
| Fiscal Year End | May 31 |
| 12B-1 Fee | – |
| Total Assets (all share classes) | $3,524,414,371 |
| Percent of Portfolio in Cash | 3.5% |

## PERFORMANCE

(NAV, total return)

| | | | Annualized | | | | |
|---|---|---|---|---|---|---|---|
| | **Three Months** | **One Year** | **Three Years** | **Five Years** | **Ten Years** | **Since Inception 7/29/11** | **30-Day SEC Yield** |
| Floating Rate Fund | 2.13% | 11.17% | 5.49% | 4.87% | 4.05% | 4.13% | 8.31% |
| Morningstar LSTA Performing Loan Index | 2.53 | 12.85 | 6.19 | 5.70 | 4.82 | 4.98 | – |

## CALENDAR YEAR PERFORMANCE

(NAV, total return)

| | **Inception Date** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Floating Rate Fund | Jul 29 2011 | 1.38% | 1.19% | 7.67% | 3.47% | -0.10% | 8.43% | 1.73% | 4.60% | -0.69% | 12.29% |
| Morningstar LSTA Performing Loan Index | | 1.82 | 0.10 | 10.36 | 4.32 | 0.60 | 8.70 | 3.50 | 5.42 | -0.77 | 13.72 |

**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. To obtain the most recent month-end performance, visit troweprice.com.** The Fund's total return figures reflect the reinvestment of dividends and capital gains, if any.

This fund could have greater price declines than a fund that invests primarily in high-quality bonds or loans: the loans and debt securities held by the fund are usually considered speculative and involve a greater risk of default and price decline than higher-rated bonds.

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

# PERFORMANCE REVIEW

**Market Review**
The leveraged loan market returned 2.53% for the three-month period ended March 31, 2024, according to the Morningstar LSTA Performing Loan Index.

The loan market posted solid total returns during the first quarter with lower-quality loans leading the way for the fourth time in the last five quarters. In an environment in which of low-quality, fundamentally challenged loans rallied from low dollar prices amid investors' strong risk appetite, our strategy endeavored to keep up with market gains while staying true to our core conservative approach to the asset class.

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 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.

The volume of new deals significantly increased quarter-over-quarter as USD 317.7 billion of issuance priced, according to J.P. Morgan. While the U.S. economy has continued down a path of resilient growth even with the fed funds rate at a two-decade high, the backdrop has been generally supportive for sub-investment-grade fundamentals, which tend to be more sensitive to economic conditions. However, there has been some dispersion in the lower end of the ratings spectrum where idiosyncratic challenges have forced several issuers with large capital structures nearing maturities to consider distressed exchanges or liability management exercises (LME). The Morningstar LSTA 12-month par-weighted leveraged loan default rate decreased to 1.14% from 1.53% at the end of December.

**Services Segment Contributed**
Security selection in services aided relative performance, in large part due to Ascend Learning, an online educational content provider that operates in defensive end markets such as health care and education professions that are large, licensure-driven segments of the labor market. The company posted a solid 3Q23 earnings report as key areas of the business saw solid organic growth, and management's 2024 guidance surprised to the upside. Our overweight to Ascend Learning's second lien loan was beneficial as they steadily rallied from the mid-80s to high 90s throughout the first quarter.

**Information Technology Segment Added Value**
Credit selection in the information technology segment contributed to relative results due, in part, to avoiding troubled credits such as Converge One, an IT company that offers global cloud-based, cyber security, networking, data center, and software development services. Converge One's highly levered loan-only capital structure came under severe pressure during the period as it became clear that the precipitous rise in base rates over the past two years was unsustainable and that the company would not be able to access capital markets before liquidity challenges overwhelmed the business. Converge One filed for Chapter 11 bankruptcy protection at the end of the quarter.

Our overweight to the performing second lien loans of Applied Systems, a provider of property and casualty broker management systems software solutions and one of our research platform's highest conviction names, also added value within information technology.

**Notable Contribution in Manufacturing**
Selection in the manufacturing segment was beneficial, partly due to one of our highest conviction holding, 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.

**Cable Operators Detracted**
Security selection in the cable operators segment was a top detractor from relative performance, almost entirely due to the Altice complex (France, International, and USA). Company owner Patrick Drahi met face-to-face with creditors in September and promised to reduce the company's debt by roughly EUR 4.0 billion via asset sales. The company subsequently announced it had launched sales processes for three Altice International units and was considering a raft of other inorganic fundraising options (i.e., asset sales). Although it had already announced asset sales totaling EUR 2.5 billion, those assets were designated as unrestricted subsidiaries just prior to the sales, which gave Drahi unlimited discretion in how the proceeds would be used. Investors initially reacted positively to this news on the assumption that the owner of the business would be true to his initial message. However, in late March management announced that it would be taking a different approach to debt reduction through aggressive liability management exercises (LME).

**Wireless Communications Industry Dragged**
Credit selection and the portfolio's overweight in the wireless communications segment modestly detracted from relative

performance. The selection impact was partly due to Asurion, the leading provider of mobile protection services. The credits sold off late in the period amid an allegation of noncompliance related to a customer contract. Despite some uncertainty around the impacted customer relationship, we are maintaining our conviction in Asurion.

## PORTFOLIO POSITIONING AND ACTIVITY

We reduced exposure to the health care and entertainment and leisure segments by trimming some positions at par to make room for more attractive opportunities.

**Increased Industry Exposures**
We increased the portfolio's significant overweight to financials, largely by initiating a meaningful position in Truist Insurance Holdings (TIH), a PE sponsored LBO of Truist Bank's insurance brokerage business. TIH is a high-quality, differentiated broker platform that has been well-managed and organically scaled for more than 20 years.

Last quarter, we closed our underweight to information technology (purchased Cloud Software Group and added to BMC Software) and we continued with that theme in 1Q24 by adding to some of our higher conviction names within the sector such as RealPage, Ellucian Holdings, Cloud Software, and Applied Systems.

**Second-Lien Loan Opportunities in High-Conviction Names**
We have an overweight allocation to higher-coupon, second-lien loans, although first liens still represent the vast majority of our holdings. Second liens are a step lower in the capital structure and, likewise, tend to be lower in credit quality, but these loans pay higher interest payments to compensate for the additional risk. Furthermore, they often come with hard call protection, an attractive feature not typically seen in the bank loan market. We will often hold a blended allocation of first- and second-lien loans from a single issuer to express conviction within an improving or stable credit. However, we have reduced exposure to second liens from our high in mid-2018.

**Covenant-Lite Loans from Issuers with Sound Credit Profiles**
With more than three-quarters of the market composed of covenant-lite (cov-lite) loans, our strategy cannot altogether avoid these loans. However, we remain significantly underweight, a consistent positioning since the strategy's inception. Cov-lite refers to a loan that is not subject to quarterly maintenance covenants, which are tests on certain credit metrics, formerly typical of the asset class. However, other restrictions remain, such as use of proceeds and restricted payments, similar to high yield covenants. Evaluating covenants has always been a critical component of our fundamental research process, and we will seek to invest in cov-lite loans issued from companies with sound credit profiles.

**High Yield Bonds Can Provide Income and Enhance Liquidity**
A typically modest allocation to high yield bonds with fixed rates can augment our income stream and enhance portfolio liquidity. When investing in this segment of the market, we often target secured bonds that are positioned at the same level of a company's capital structure (pari passu) as bank loans but with higher coupons. Similar to our second-lien positions, high yield bonds with fixed rates will often complement a bank loan holding to convey a positive thesis.

## MANAGER'S OUTLOOK

Loan coupons have moved in lockstep with Federal Reserve rate hikes over the past two years and provide compelling current income for dedicated bank loan investors. However, given the more burdensome financing costs, we remain cautious around the lower-end of the market, particularly lower-quality loan-only issuers with unhedged interest rate exposure and capital structures at risk of liability management exercise activity. As a result, the default rate is expected to continue normalizing over the near-to-medium term to levels more consistent with the market's long-term average (2-4%).

As the Fed continues to weigh incoming economic data that has recently surprised to the upside with inflecting inflation measures, the trajectory of short-term rates has become much less certain, and consequently, so have future loan coupon payments. Ultimately, investors still find themselves in a regime where financial markets volatility remains elevated both up and down the risk spectrum (i.e., equity, credit, and interest rate volatility), which we believe makes the case for active management in the loan asset class.

As always, we aim to deliver high current income while seeking to contain the volatility inherent in this market. Our team maintains a commitment to credit research and risk-conscious investing that has historically led to favorable returns for our bank loan clients over various market cycles.

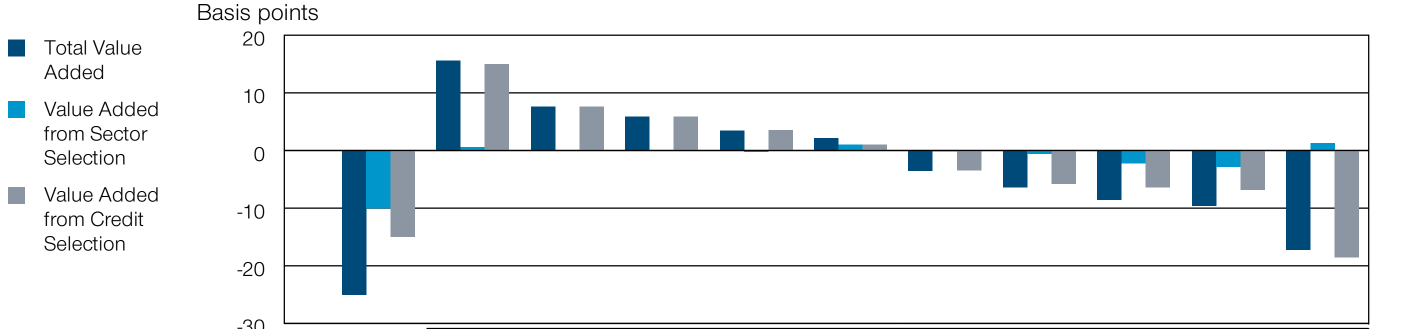
## ORGANIZATIONAL UPDATE

The following investment team changes occurred during the quarter:
Departure: Sean Mckenna, Trader

# QUARTERLY ATTRIBUTION

## INDUSTRY ATTRIBUTION VS. MORNINGSTAR LSTA PERFORMING LOAN INDEX (TOP AND BOTTOM 5 BY TOTAL VALUE ADDED)

(3 months ended March 31, 2024)

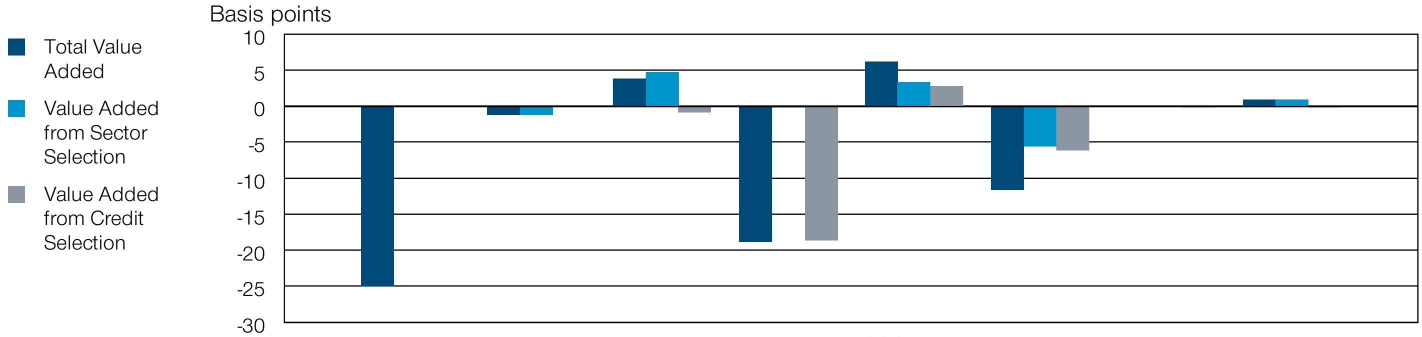



| | Total | Service | Info Tech | Manu-facturing | Gaming & Lodg-ing | Food | Enter-tainment & Lei-sure | Financial | Health Care | Wireless Commu-nications | Cable Opera-tors |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Top Five Total Value Added | | | | | Bottom Five Total Value Added | | | | |
| Fund Weight (%) | 100.00 | 11.47 | 14.43 | 3.90 | 2.88 | 1.14 | 5.46 | 14.91 | 9.55 | 2.59 | 2.67 |
| Benchmark Weight (%) | 100.00 | 15.07 | 13.84 | 4.33 | 2.35 | 2.43 | 2.50 | 7.74 | 12.36 | 1.35 | 3.12 |
| Fund Performance (%) | 2.28 | 3.67 | 2.67 | 3.90 | 3.57 | 2.56 | 1.88 | 1.95 | 2.70 | -2.16 | -6.98 |
| Benchmark Performance (%) | 2.53 | 2.35 | 2.15 | 2.39 | 2.33 | 1.66 | 2.54 | 2.38 | 3.30 | 0.41 | -0.08 |
| Sector Selection (bps) | -10 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | -2 | -3 | 1 |
| Credit Selection (bps) | -15 | 15 | 8 | 6 | 4 | 1 | -3 | -6 | -6 | -7 | -18 |
| Total Contribution (bps) | -25 | 16 | 8 | 6 | 4 | 2 | -4 | -6 | -8 | -10 | -17 |

Industry classification was determined by T. Rowe Price’s high yield industry structure.
**Past performance is not a reliable indicator of future performance.** T. Rowe Price's proprietary attribution model compares the fund's performance and average market weights with that of the benchmark. Figures are shown gross of fees. Returns would be lower as a result of the deduction of such fees. 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. Performance returns are in USD.

## CREDIT QUALITY ATTRIBUTION VS. MORNINGSTAR LSTA PERFORMING LOAN INDEX

(3 months ended March 31, 2024)



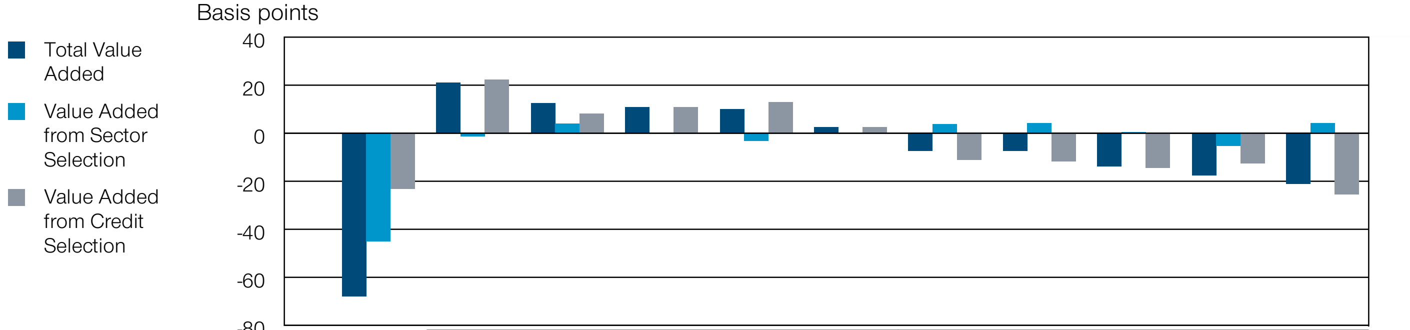

| | Total | BBB Rated & Above | BB Rated | B Rated | CCC Rated & Below | Not Rated | CDS/CDX | Short Term |
|---|---|---|---|---|---|---|---|---|
| Fund Weight (%) | 100.00 | 2.13 | 15.14 | 28.79 | 10.32 | 9.66 | 0.00 | 3.17 |
| Benchmark Weight (%) | 100.00 | 0.00 | 24.43 | 26.30 | 7.19 | 3.85 | 0.00 | 0.00 |
| Fund Performance (%) | 2.28 | 1.95 | 1.95 | 1.90 | 4.48 | 0.93 | 0.00 | 0.00 |
| Benchmark Performance (%) | 2.53 | 0.00 | 2.00 | 2.56 | 4.12 | 1.98 | 0.00 | 0.00 |
| Sector Selection (bps) | 0 | -1 | 5 | 0 | 3 | -5 | 0 | 1 |
| Credit Selection (bps) | 0 | 0 | -1 | -19 | 3 | -6 | 0 | 0 |
| Total Contribution (bps) | -25 | -1 | 4 | -19 | 6 | -12 | 0 | 1 |

**Past performance is not a reliable indicator of future performance.** Source of credit quality rating: Standard and Poor’s.
T. Rowe Price's proprietary attribution model compares the fund's performance and average market weights with that of the benchmark. Figures are shown gross of fees. Returns would be lower as a result of the deduction of such fees. 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. Performance returns are in USD.

# 12-MONTH ATTRIBUTION

## INDUSTRY ATTRIBUTION VS. MORNINGSTAR LSTA PERFORMING LOAN INDEX (TOP AND BOTTOM 5 BY TOTAL VALUE ADDED)

(12 months ended March 31, 2024)

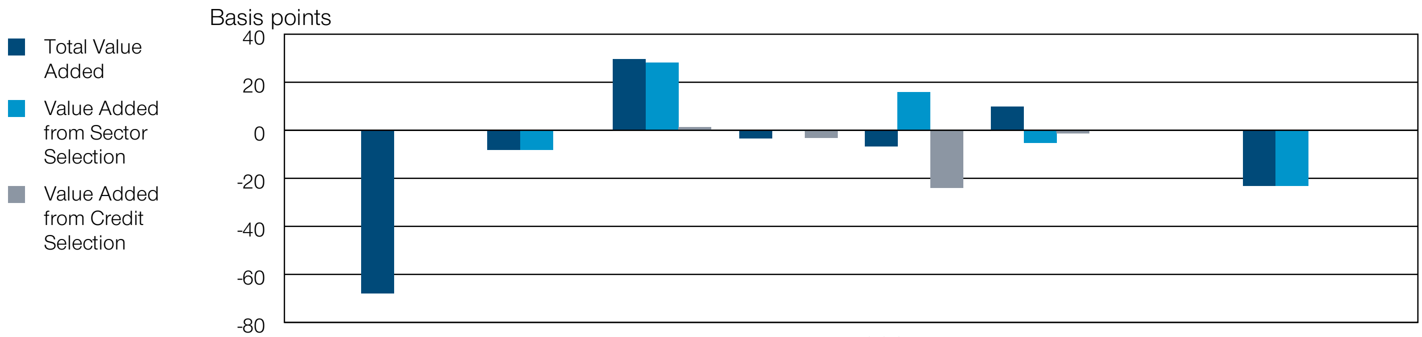



| | | Top Five Total Value Added | | | | | Bottom Five Total Value Added | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Service | Wireless Commu-nications | Other | Health Care | Manu-facturing | Retail | Automo-tives | Enter-tainment & Lei-sure | Financial | Cable Opera-tors |
| Fund Weight (%) | 100.00 | 10.77 | 2.52 | 0.03 | 10.69 | 3.93 | 0.77 | 4.35 | 5.50 | 14.62 | 2.37 |
| Benchmark Weight (%) | 100.00 | 14.57 | 1.31 | 0.00 | 12.58 | 4.41 | 1.99 | 2.87 | 2.52 | 7.40 | 3.19 |
| Fund Performance (%) | 12.17 | 15.36 | 20.09 | 0.00 | 14.84 | 13.22 | -2.27 | 12.68 | 10.85 | 11.17 | -2.73 |
| Benchmark Performance (%) | 12.85 | 13.24 | 16.62 | 0.00 | 13.69 | 12.46 | 9.59 | 15.42 | 13.59 | 12.04 | 7.92 |
| Sector Selection (bps) | -45 | -1 | 4 | 0 | -3 | 0 | 4 | 4 | 1 | -5 | 4 |
| Credit Selection (bps) | -23 | 23 | 8 | 11 | 13 | 3 | -11 | -12 | -14 | -12 | -25 |
| Total Contribution (bps) | -68 | 21 | 13 | 11 | 10 | 3 | -7 | -7 | -14 | -17 | -21 |

Industry classification was determined by T. Rowe Price's high yield industry structure.
**Past performance is not a reliable indicator of future performance.** T. Rowe Price's proprietary attribution model compares the fund's performance and average market weights with that of the benchmark. Figures are shown gross of fees. Returns would be lower as a result of the deduction of such fees. 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. Performance returns are in USD.

## CREDIT QUALITY ATTRIBUTION VS. MORNINGSTAR LSTA PERFORMING LOAN INDEX

(12 months ended March 31, 2024)

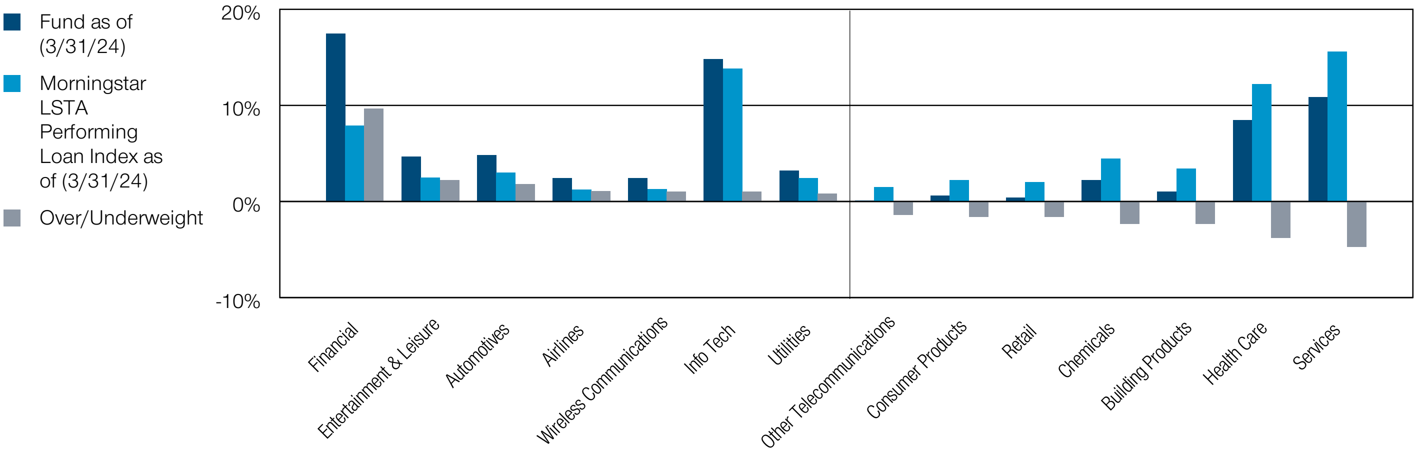



| | Total | BBB Rated & Above | BB Rated | B Rated | CCC Rated & Below | Not Rated | CDS/CDX | Short Term |
|---|---|---|---|---|---|---|---|---|
| Fund Weight (%) | 100.00 | 1.81 | 15.01 | 26.90 | 10.82 | 8.01 | 0.00 | 4.05 |
| Benchmark Weight (%) | 100.00 | 0.00 | 24.83 | 26.41 | 6.91 | 3.10 | 0.00 | 3.10 |
| Fund Performance (%) | 12.17 | 8.21 | 10.07 | 13.00 | 15.34 | 12.05 | 0.00 | 0.00 |
| Benchmark Performance (%) | 12.85 | 0.00 | 10.04 | 13.16 | 17.23 | 12.45 | 0.00 | 0.00 |
| Sector Selection (bps) | 0 | -8 | 28 | 0 | 16 | -5 | 0 | -23 |
| Credit Selection (bps) | 0 | 0 | 1 | -3 | -24 | -1 | 0 | 0 |
| Total Contribution (bps) | -68 | -8 | 30 | -3 | -6 | 10 | 0 | -23 |

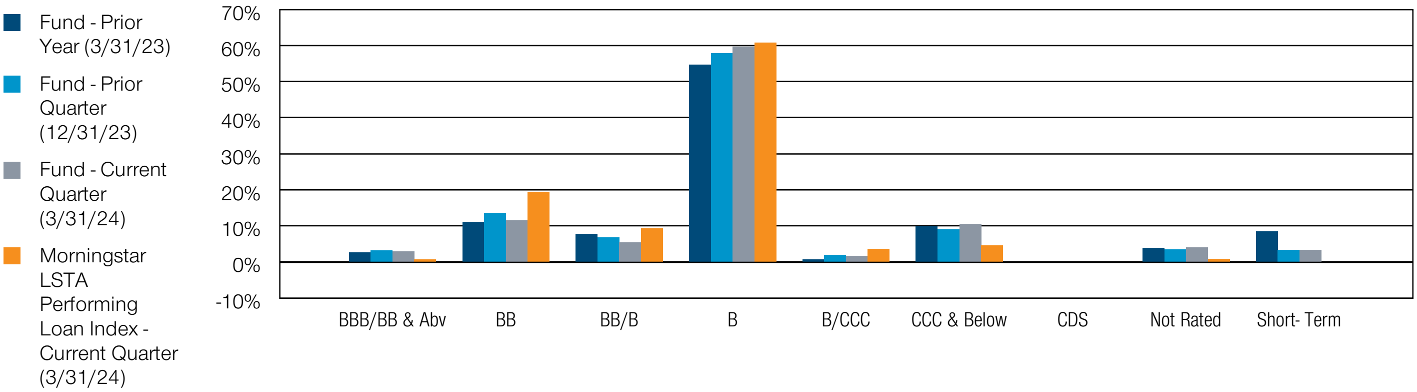
**Past performance is not a reliable indicator of future performance.** Source of credit quality rating: Standard and Poor's.
T. Rowe Price's proprietary attribution model compares the fund's performance and average market weights with that of the benchmark. Figures are shown gross of fees. Returns would be lower as a result of the deduction of such fees. 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. Performance returns are in USD.

# PORTFOLIO POSITIONING

## SIGNIFICANT OVER/UNDERWEIGHT INDUSTRIES




## CREDIT QUALITY DIVERSIFICATION – CHANGES OVER TIME




## BANK LOAN DISTRIBUTION

| | % of Fund | % of Morningstar LSTA Performing Loan Index |
|---|---|---|
| 2nd Lien | 11.5% | 1.8% |
| Convenant Lite Deals | 80.9 | 92.3 |
| LIBOR Floor | 51.0 | 66.0 |

All categories are not mutually exclusive and an individual issuer may be counted in more than one category.

# HOLDINGS

## TOP 10 ISSUERS

| Issuer | Industry | % of Fund |
|---|---|---|
| Truist Insurance Holdings LLC | Financial | 3.5% |
| UKG Inc | Services | 3.4 |
| HUB International Ltd | Financial | 3.0 |
| Applied Systems Inc | Info Tech | 2.3 |
| Asurion LLC | Wireless Communications | 2.2 |
| AssuredPartners Inc | Financial | 2.1 |
| Cloud Software Group Inc | Info Tech | 1.8 |
| Epicor Software Corp | Info Tech | 1.7 |
| UFC Holdings LLC | Entertainment & Leisure | 1.6 |
| BMC Software Inc | Info Tech | 1.5 |

# PORTFOLIO MANAGEMENT

**Portfolio Manager:**
Paul Massaro

**Managed Fund Since:**
2011

**Joined Firm:**
2003

## 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.**


Fund Assets, holdings-based analytics (excluding portfolio turnover), and portfolio attribution are calculated using T. Rowe Price's internal Investment Book of Records (IBOR). Due to timing and accounting methodology differences, IBOR data may differ from the Accounting Book of Records (ABOR) data provided by the Fund's accountant.
The manager's views and portfolio holdings are historical and subject to change. This material should not be deemed a recommendation to buy or sell any of the securities mentioned. The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the Fund and no assumptions should be made that the securities identified and discussed were or will be profitable.
Industry classification was determined by T. Rowe Price's high yield industry structure.  The bonds in which the fund invests are at a much greater risk of default and tend to be more volatile than higher-rated bonds. Like bond funds, it is exposed to interest rate risk, but credit and liquidity risks may often be more important.
Diversification exhibits may not add to 100% due to exclusion or inclusion of cash.
Source for Credit Quality Diversification:
Credit ratings for the securities held in the Fund are provided by Moody's and Standard & Poor's and are converted to the Standard & Poor's nomenclature. A rating of "AAA" represents the highest-rated securities, and a rating of "D" represents the lowest-rated securities. Split ratings (e.g., BB/B and B/CCC)  are assigned when Moody's and S&P differ. If a rating is not available, the security is classified as Not Rated (NR). The rating of the underlying investment vehicle is used to determine the creditworthiness of credit default swaps and sovereign securities. The Fund is not rated by any agency. U.S. Government Agency securities, if any, may include conventional pass-through securities and collateralized mortgage obligations. This category may include rated and unrated securities.

Certain numbers in this report may not equal stated totals due to rounding. Unless otherwise stated, data is as of the report date.
Unless indicated otherwise the source of all data is T. Rowe Price.
This material has been prepared for informational purposes only. The views and opinions stated in this commentary are those of the portfolio managers listed as of the date indicated. These views and opinions are subject to change based on market or other conditions and may differ from those of other T. Rowe Price associates. Actual market and investment results may differ materially from expectations.

T. Rowe Price Investment Services, Inc., Distributor.
202404-3481869