



QUARTERLY REVIEW

**New Horizons Fund**

As of June 30, 2020

**PORTFOLIO HIGHLIGHTS**

The portfolio outperformed the Russell 2000 Growth Index for the three months ended June 30, 2020.

**Relative Performance Drivers:**

- Eight of 11 sectors contributed to relative returns. Stock selection overwhelmingly drove relative performance, with the information technology (IT) sector adding the most value.
- The health care sector contributed to relative returns owing to stock selection.
- The industrials and business services sector detracted the most from relative performance owing to negative stock selection.
- Consumer discretionary stocks weighed on relative returns largely due to an underweight allocation to the sector, the best performer in the benchmark.

**Additional Highlights:**

- IT and health care represented the largest sector allocations on an absolute basis at quarter-end. Relative to the benchmark, IT and industrials and business services accounted for the top overweight sectors. Conversely, health care and consumer discretionary were the biggest underweights.
- The Federal Reserve's massive stimulus measures and a low rate environment drove up shares of small, durable-growth companies, whose rising valuations proved to be less of an issue than many had expected. While we believe that valuations in certain industries are elevated, we have a high level of conviction in the fundamentals of our holdings.

**FUND INFORMATION**

Symbol	PRNHX
CUSIP	779562107
Inception Date of Fund	June 03, 1960
Benchmark	Russell 2000 Growth Index
Expense Information (as of the most recent Prospectus)	0.76%
Fiscal Year End	December 31
12B-1 Fee	-
Total Assets (all share classes)	\$32,161,472,461
Percent of Portfolio in Cash	1.8%

**PERFORMANCE**

(NAV, total return)

	Three Months	Year-to-Date	One Year	Annualized			
				Three Years	Five Years	Ten Years	Fifteen Years
New Horizons Fund	37.59%	20.60%	27.31%	24.47%	18.88%	21.08%	14.23%
Russell 2000 Growth Index	30.58	-3.06	3.48	7.86	6.86	12.92	8.85

**CALENDAR YEAR PERFORMANCE**

(NAV, total return)

	Inception Date	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
New Horizons Fund	Jun 03 1960	34.67%	6.63%	16.20%	49.11%	6.10%	4.50%	7.79%	31.49%	4.04%	37.71%
Russell 2000 Growth Index		29.09	-2.91	14.59	43.30	5.60	-1.38	11.32	22.17	-9.31	28.48

**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](http://troweprice.com). 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](http://troweprice.com). Read it carefully.** The Fund's total return figures reflect the reinvestment of dividends and capital gains, if any. Investing in small companies involves greater risk than is customarily associated with larger companies, since small companies often have limited product lines, markets, or financial resources. The fund(s) may have other share classes available that offer different investment minimums and fees. See the prospectus for details. For Sourcing Information, please see Additional Disclosures.

## PERFORMANCE REVIEW

### Stocks Notch Best Quarter in Decades on Recovery Hopes

Stocks rebounded in the second quarter, with the major indexes recording their best quarterly performance in decades. Progress in the battle against the coronavirus boosted markets early in the quarter, with infection rates, hospitalizations, and deaths beginning to decline in early April in New York and other hard-hit areas. The turnaround encouraged the nation's governors to begin the gradual reopening of businesses and public facilities, while major firms resumed manufacturing operations in late April. After coasting lower for several weeks, however, the national number of daily diagnosed new cases began to climb in June, resulting in periodic sell-offs. The overall tone of economic data improved throughout the quarter and may have helped offset renewed coronavirus fears. After a historical plunge in April, payrolls surged by a record amount in May. Retail sales also bounced back, and several indicators suggested a recovery in manufacturing.

### IT Stocks Contributed to Relative Performance

The IT sector contributed the most to relative returns due to positive stock selection. Many of the portfolio's largest contributors were cloud software companies that experienced accelerated growth amid the sudden transition to remote working following lockdowns starting in March.

- DocuSign, whose software is used to automate business contracts and electronic signatures, was one of the top contributors after several quarters of strong earnings driven by rapid growth in digitized documents and e-signatures. We think that DocuSign has solid growth prospects but trimmed our position as we were mindful of the company's valuation and position size after stellar performance.
- Other large contributors were applications monitoring and analytics company Datadog, e-commerce platform company Shopify, and cloud communications software maker Twilio. Shares of these names rebounded from their March lows and rose to record levels as investors deemed that they provided critical infrastructure for businesses during the pandemic and would continue to see rising demand longer term.
- We kept the portfolio's positions in these companies, which we think are well positioned to emerge in a strong position after the recession.

### Health Care Helped Relative Returns

The health care sector added value due to favorable stock selection.

- Dexcom helped relative performance as the medical device company benefited from growing use of its continuous glucose monitoring (CGM) systems for diabetics. Dexcom has reported consensus-beating earnings for several quarters, validating our view that the company is positioned for long-term growth as CGM becomes the standard of care for managing diabetes. We reduced our position after strong performance, but the company remains a large holding.
- Veeva Systems led contributors as demand for its cloud software, which provides customer relationship and clinical data management services for life science companies, stayed resilient amid the pandemic. Veeva is a well-managed, highly profitable business with a high revenue retention rate supported by a globally diversified customer base. The company is a top holding.

### Industrials and Business Services Stocks Detracted From Relative Returns

The industrials and business services sector weighed on relative

performance owing to negative stock selection. Armstrong World Industries, which makes walls and ceilings for commercial spaces, led detractors as the pandemic shut down construction projects.

- Armstrong's strong balance sheet, spending discipline, and free cash flow generation should allow it to weather the commercial construction downturn.
- Teledyne Technologies detracted from relative returns as the conglomerate's shares lagged the sector amid concerns of sales weakness due to the recession and the company's commercial aerospace exposure. Teledyne operates several high-quality businesses that are leaders in niche markets, and we believe that its solid balance sheet and management's track record of strategic acquisitions position the company well for durable growth.

### Consumer Discretionary Stocks Hurt Relative Performance

Consumer discretionary stocks weighed on relative returns mostly due to an underweight allocation to the sector, the best performer in the index following a first-quarter sell-off. Unfavorable stock selection slightly detracted.

- Planet Fitness detracted from relative performance as the coronavirus forced the gym operator to close its locations in mid-March and raised concerns about its near-term financial performance, causing its shares to lag the sector. We started a position in Planet Fitness, which stands out in the gym industry for its value-focused proposition, franchised business model, and significant scale over its peers.

## PORTFOLIO POSITIONING AND ACTIVITY

IT, health care, and industrials and business services accounted for the largest sector allocations on an absolute basis at quarter-end. Relative to the Russell 2000 Growth Index, IT and industrials and business services were the biggest overweight sectors, while health care and consumer discretionary were the largest underweights.

### Information Technology

We focus on IT companies with expanding market share and strong management teams that can take advantage of opportunities regardless of the overall economic and technology spending backdrop.

- We maintained a large position in DocuSign. The company is seeing rapid growth as digitized documents and e-signatures become more widespread, a secular trend that we believe will endure longer term even beyond a post-pandemic recovery. DocuSign is expanding its focus as it shifts to becoming a contract management software provider, which should broaden its customer base and help revenue retention.
- We added to our holdings in Five9, which makes customer call center software, when its shares fell on concerns that the coronavirus crisis would disproportionately hit companies exposed to small businesses. Five9 is replacing larger incumbents in the call center software market, and we believe it is well positioned to take significant share as the pandemic has underscored the importance of staffing call centers for businesses.
- We increased our holdings in HubSpot, a cloud marketing and sales software company that sells to small and mid-size businesses. Similar to Five9, we added to our position when the company's shares fell amid concerns that the recession would decimate small businesses. HubSpot has a highly

recurring business model and a high revenue retention rate, and we think it will take market share during the crisis due to the strength of its technology.

- We eliminated our holdings in Gartner, a technology-focused market research and consulting company, over concerns about management's ability to deliver on its growth targets and weakness in the company's conference business due to the downturn in business travel.

### Consumer Discretionary

We focus on unique companies with strong potential to become large, durable compounders over time.

- We initiated a position in Planet Fitness, the country's biggest franchisor of low-cost gyms, after its shares fell to compelling levels. Though gym operators face the risk of disruption from technology as workout apps grow in popularity, we believe that Planet Fitness benefits from having a much larger scale and first-mover advantage over its competitors in the value gym segment.
- We started a position in high-end furniture retailer RH, which we believe has large growth potential and should take share from brick-and-mortar stores impacted by coronavirus-related shutdowns. Though the pandemic has dampened consumer spending, we believe that home improvement-related spending will prove more resilient than spending on other discretionary categories.
- We reduced our position in ski resort operator Vail Resorts due to uncertainty about the timing of a recovery in demand for destination travel amid a longer-term growth slowdown. Despite having a strong balance sheet and lower capital spending burdens compared with other leisure companies, Vail's exposure to the virus's impact on travel creates a significant headwind on its outlook.

### Industrials and Business Services

We favor well-managed companies offering steady and durable growth characteristics in this sector.

- We increased our holdings in industrial conglomerate Teledyne Technologies on weakness. The company has a healthy balance sheet, generates significant free cash flow, and is capable of sustaining strong earnings growth over the long term due to organic growth and potential mergers and acquisitions.
- We started a position in Trex, which makes composite decking and railing made from recycled materials, at a time of share weakness early in the quarter. Despite an uncertain near-term outlook for construction, we believe that Trex is positioned to benefit from increased home improvement spending as people spend more time at home during the pandemic. The company is a market leader and offers a high-quality, durable product.
- We eliminated our position in BWX Technologies, the sole manufacturer of naval nuclear reactors for U.S. submarines and aircraft carriers. We believe that BWX's risk/reward profile has become less appealing and opted to sell our position in favor of other companies with stronger upside potential.

## MANAGER'S OUTLOOK

The extraordinary comeback for U.S. stocks in the second quarter following the first quarter's historical declines took most investors by surprise. The Federal Reserve's massive stimulus measures and a low interest rate environment drove up shares of small, durable-growth companies, whose rising valuations proved to be less

of an issue than many expected. While we believe that valuations in certain industries are elevated, we have a high level of conviction in the fundamentals of our portfolio holdings.

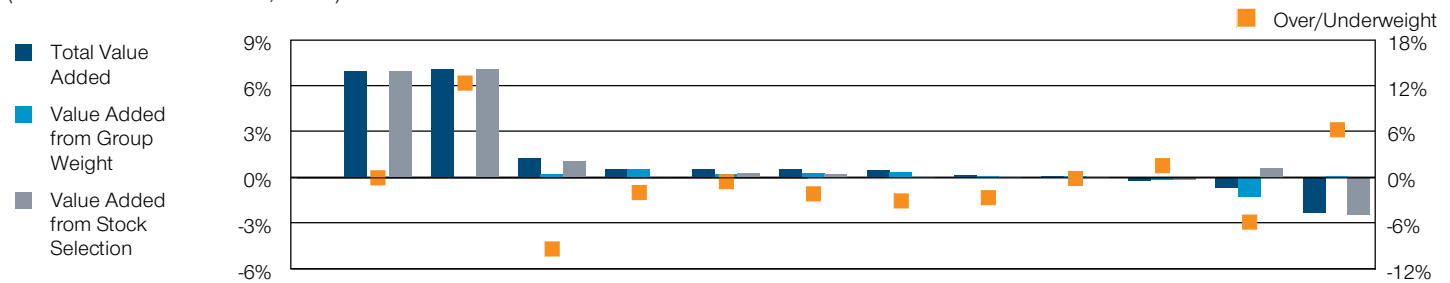
Thanks to social distancing, remote working, and other new behaviors ushered in by the coronavirus, the pandemic effectively accelerated future growth and returns for many of our technology holdings. Though we expect near-term returns will be more muted than the outsized gains recorded by many of our technology companies this year, we still see solid potential for compounding returns over the longer term. Moreover, we believe that the accelerated penetration of some new technologies will continue in a post-pandemic recovery even after stores reopen and workers return to their offices. If anything, the public health crisis has only reinforced the value of these new capabilities.

In the near term, our efforts are trained on identifying the companies best positioned to emerge as long-term winners coming out of the crisis. As we assess current holdings and new candidates, we are ever mindful of each company's underlying growth rate and its ability to pursue its total addressable market and take share within the relevant industry. Our dual focus on emerging growth companies and durable compounders has been the New Horizon Fund's mission since inception and continues to this day. Thanks to our disciplined investment process and the strengths of T. Rowe Price's fundamental research platform, we believe we are well-equipped to continue creating value for our investors over the long term.

## QUARTERLY ATTRIBUTION

### SECTOR ATTRIBUTION DATA VS. RUSSELL 2000 GROWTH INDEX

(3 months ended June 30, 2020)



	Total	Info Tech	Health Care	Utilities	Financials	Consumer Staples	Real Estate	Materials	Energy	Comm Svcs	Consumer Disc	Indust & Bus Svcs
Over/Underweight	0.00%	12.45%	-9.38%	-1.93%	-0.50%	-2.14%	-3.03%	-2.66%	-0.07%	1.60%	-5.81%	6.26%
Fund Performance	37.53	56.97	37.95	0.00	25.21	46.00	26.50	-9.72	0.00	18.18	61.14	19.45
Index Performance	30.58	30.46	32.02	0.09	18.34	21.31	18.83	28.36	48.78	22.50	54.27	29.27
Value Add - Group Weight	-0.03	0.02	0.19	0.59	0.23	0.27	0.37	0.09	0.05	-0.08	-1.24	0.13
Value Add - Stock Selection	6.97	7.10	1.10	0.00	0.30	0.24	0.10	0.07	0.01	-0.15	0.61	-2.40
Total Contribution	6.94	7.12	1.29	0.59	0.53	0.52	0.47	0.16	0.06	-0.23	-0.63	-2.27

### TOP 5 RELATIVE CONTRIBUTORS VS. RUSSELL 2000 GROWTH INDEX

(3 months ended June 30, 2020)

Security	% of Equities	Net Contribution (Basis Points)
DocuSign, Inc.	2.4%	195
Datadog, Inc.	2.3	171
Shopify, Inc.	1.5	130
Dexcom, Inc.	2.2	129
Vroom Inc Lockup Shs Pp	1.5	126

### TOP 5 RELATIVE DETRACTORS VS. RUSSELL 2000 GROWTH INDEX

(3 months ended June 30, 2020)

Security	% of Equities	Net Contribution (Basis Points)
Quidel Corporation	0.0%	-56
Chegg, Inc.	0.0	-44
Immunomedics, Inc.	0.2	-40
Teladoc Health, Inc.	0.0	-35
Redfin Corporation	0.0	-31

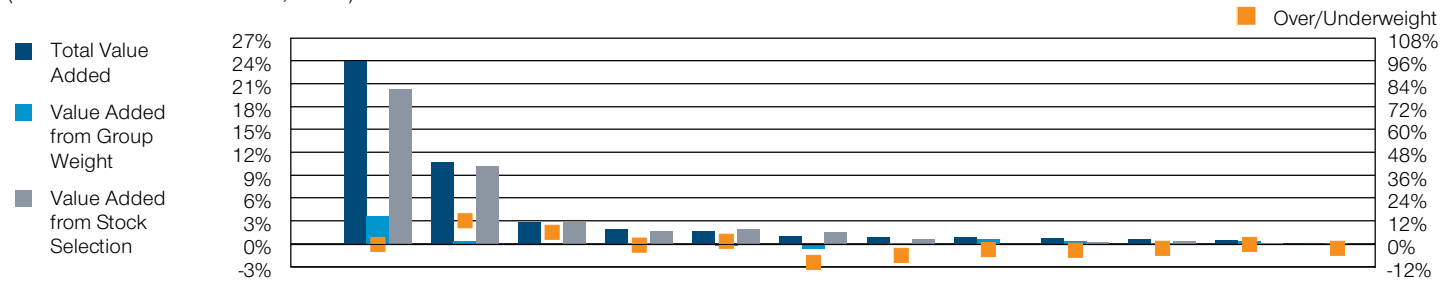
Net contribution is calculated versus a specific benchmark. It is the difference between the security's absolute contribution to the portfolio and the security's absolute contribution to the benchmark. This reflects the amount the security has impacted relative return.

**Past performance is not a reliable indicator of future performance.** Numbers may not total due to rounding; all other numbers are percentages. Analysis represents the total performance of the portfolio as calculated by the FactSet attribution model and is inclusive of other assets that will not receive a classification assignment in the detailed 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 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 2020 FactSet. All Rights Reserved. MSCI/S&P GICS Sectors; Analysis by T. Rowe Price Associates, Inc. T. Rowe Price uses the current MSCI/S&P Global Industry Classification Standard (GICS) for sector and industry reporting. T. Rowe Price will adhere to all updates to GICS for prospective reporting. Figures are shown gross of fees. Returns would be lower as a result of the deduction of such fees. Performance returns are in USD. For Sourcing Information, please see Additional Disclosures.

## 12-MONTH ATTRIBUTION

### SECTOR ATTRIBUTION DATA VS. RUSSELL 2000 GROWTH INDEX

(12 months ended June 30, 2020)



	Total	Info Tech	Indust & Bus Svcs	Financials	Comm Svcs	Health Care	Consumer Disc	Materials	Real Estate	Consumer Staples	Energy	Utilities
Over/Underweight	0.00%	12.45%	6.26%	-0.50%	1.60%	-9.38%	-5.81%	-2.66%	-3.03%	-2.14%	-0.07%	-1.93%
Fund Performance	27.53	47.24	10.76	32.84	33.23	29.47	5.43	-43.95	8.70	43.38	-41.41	0.00
Index Performance	3.46	8.15	-4.27	-4.08	-13.67	19.44	-4.62	-16.34	-10.72	0.34	-57.04	-1.39
Value Add - Group Weight	3.71	0.48	-0.04	0.26	-0.24	-0.62	0.27	0.76	0.50	0.26	0.40	0.24
Value Add - Stock Selection	20.35	10.34	2.94	1.77	2.00	1.67	0.63	0.11	0.29	0.47	0.14	0.00
Total Contribution	24.06	10.82	2.90	2.03	1.76	1.06	0.90	0.87	0.80	0.73	0.54	0.24

### TOP 5 RELATIVE CONTRIBUTORS VS. RUSSELL 2000 GROWTH INDEX

(12 months ended June 30, 2020)

Security	% of Equities	Net Contribution (Basis Points)
Docusign, Inc.	2.4%	291
Dexcom, Inc.	2.2	277
Shopify, Inc.	1.5	235
Datadog, Inc.	2.3	154
Veeva Systems, Inc.	2.3	124

### TOP 5 RELATIVE DETRACTORS VS. RUSSELL 2000 GROWTH INDEX

(12 months ended June 30, 2020)

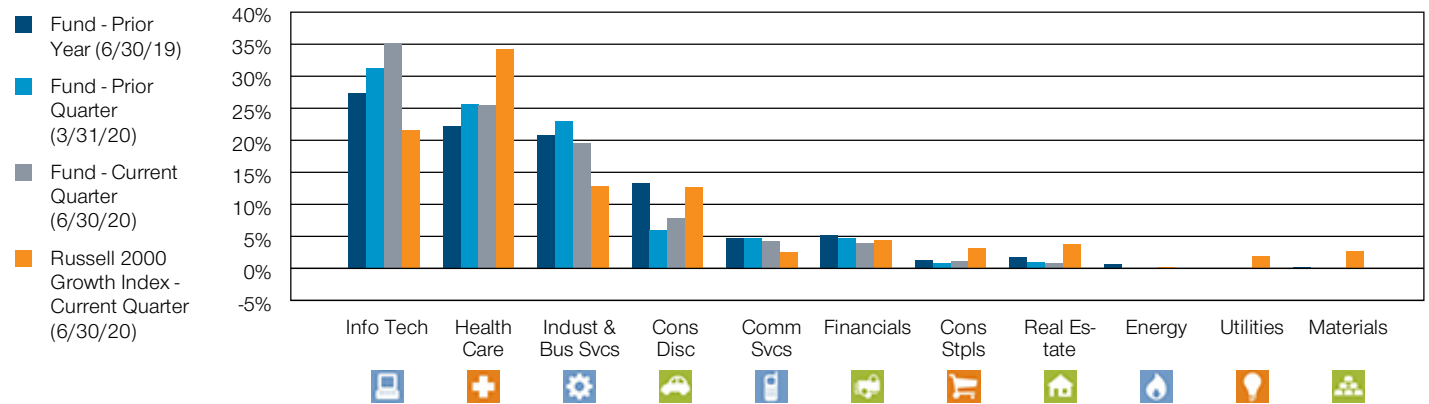
Security	% of Equities	Net Contribution (Basis Points)
Teladoc Health, Inc.	0.0%	-92
Sage Therapeutics, Inc.	0.1	-71
Quidel Corporation	0.0	-51
Armstrong World Industries, Inc.	1.5	-50
Exact Sciences Corporation	1.8	-47

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.

**Past performance is not a reliable indicator of future performance.** Numbers may not total due to rounding; all other numbers are percentages. Analysis represents the total performance of the portfolio as calculated by the FactSet attribution model and is inclusive of other assets that will not receive a classification assignment in the detailed 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 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 2020 FactSet. All Rights Reserved. MSCI/S&P GICS Sectors; Analysis by T. Rowe Price Associates, Inc. T. Rowe Price uses the current MSCI/S&P Global Industry Classification Standard (GICS) for sector and industry reporting. T. Rowe Price will adhere to all updates to GICS for prospective reporting. Figures are shown gross of fees. Returns would be lower as a result of the deduction of such fees. Performance returns are in USD. For Sourcing Information, please see Additional Disclosures.

# PORTFOLIO POSITIONING

## SECTOR DIVERSIFICATION – CHANGES OVER TIME



### LARGEST PURCHASES

Issuer	Sector	% of Fund Current Quarter 6/30/20	% of Fund Prior Quarter 3/31/20
Cable One	Info Tech	2.3%	2.6%
Dexcom	Health Care	2.2	2.9
Paylocity Holding	Info Tech	1.9	1.0
HubSpot	Info Tech	1.7	0.5
Shopify	Info Tech	1.5	0.9
Five9	Info Tech	1.3	0.4
Planet Fitness (N)	Cons Disc	1.1	0.0
Teledyne Technologies	Indust & Bus Svcs	0.8	0.1
Trex (N)	Indust & Bus Svcs	0.6	0.0
RH (N)	Cons Disc	0.5	0.0

### LARGEST SALES

Issuer	Sector	% of Fund Current Quarter 6/30/20	% of Fund Prior Quarter 3/31/20
DocuSign	Info Tech	2.4%	2.5%
Veeva Systems	Health Care	2.2	2.5
Dexcom	Health Care	2.2	2.9
MSCI	Financials	2.1	2.7
Okta	Info Tech	1.7	2.0
Bright Horizons Family Solutions	Cons Disc	1.5	2.0
Shopify	Info Tech	1.5	0.9
Lennox International	Indust & Bus Svcs	0.8	1.4
Gartner (E)	Info Tech	0.0	0.7
BWX Technologies (E)	Indust & Bus Svcs	0.0	0.6

(N) New Position  
(E) Eliminated

For Sourcing Information, please see Additional Disclosures.

## HOLDINGS

### TOP 10 ISSUERS

Issuer	Industry	% of Fund	% of Russell 2000 Growth Index
DocuSign	Software	2.4%	0.0%
Waste Connections	Commercial Services & Supplies	2.3	0.0
Cable One	Media	2.3	0.0
Datadog	Software	2.3	0.0
Booz Allen Hamilton	IT Services	2.3	0.0
Veeva Systems	Health Care Technology	2.2	0.0
Dexcom	Health Care Equip & Supplies	2.2	0.0
MSCI	Capital Markets	2.1	0.0
Atlassian	Software	2.1	0.0
CoStar Group	Professional Services	2.1	0.0

### TOP 5 OVER/UNDERWEIGHT POSITIONS VS. RUSSELL 2000 GROWTH INDEX

Issuer	Industry	% of Fund	% of Russell 2000 Growth Index	Over/Underweight
DocuSign	Software	2.4%	0.0%	2.4%
Waste Connections	Commercial Services & Supplies	2.3	0.0	2.3
Cable One	Media	2.3	0.0	2.3
Datadog	Software	2.3	0.0	2.3
Booz Allen Hamilton	IT Services	2.3	0.0	2.3
Deckers Outdoor	Textiles, Apparel & Luxury Goods	0.0	0.6	-0.6
LHC Group	Health Care Providers & Svcs	0.0	0.6	-0.6
BJ's Wholesale Club Holdings	Food & Staples Retailing	0.0	0.6	-0.6
Churchill Downs	Hotels Restaurants & Leisure	0.0	0.6	-0.6
Helen of Troy Limited	Household Durables	0.0	0.5	-0.5

## PORTFOLIO MANAGEMENT



**Portfolio Manager:**  
Joshua Spencer

**Managed Fund Since:**  
2019

**Joined Firm:**  
2004

For Sourcing Information, please see Additional Disclosures.

## Additional Disclosures

Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

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

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.

The information shown does not reflect any Exchange Traded Funds (ETFs) that may be held in the portfolio.

Source for Sector Diversification: T. Rowe Price uses the current MSCI/S&P Global Industry Classification Standard (GICS) for sector and industry reporting. T.

Rowe Price will adhere to all future updates to GICS for prospective reporting.

Diversification exhibits may not add to 100% due to exclusion or inclusion of cash.

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.

Closed to new investors. Open to subsequent investments.

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.

© 2020 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the bighorn sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc.

T. Rowe Price Investment Services, Inc., Distributor.

202007-1224161