



QUARTERLY REVIEW

**Ultra Short-Term Bond Fund**

As of March 31, 2021

**PORTFOLIO HIGHLIGHTS**

The portfolio outperformed its benchmark, the Bloomberg Barclays Short-Term Government/Corporate Index, for the three-month period ended March 31, 2021.

**Relative performance drivers:**

- Security selection within investment-grade corporate bonds, coupled with an overweight allocation to the sector, drove relative outperformance as spread widening created opportunities.
- Out-of-benchmark allocations to ABS, MBS, and CMBS contributed positively as securitized sectors benefited from a rebound in risk sentiment.
- Yield curve positioning was a modest detractor.

**Additional highlights:**

- We maintain a strategic overweight to corporate bonds, along with a corresponding underweight to U.S. Treasuries, as we look to add incremental yield to the portfolio.
- Although the economic outlook is generally favorable, valuations in the fixed income market no longer appear as attractive as they did after central banks launched their rescue operations in the first half of 2020.

**FUND INFORMATION**

Symbol	TRBUX
CUSIP	77957P303
Inception Date of Fund	December 03, 2012
Benchmark	Bloomberg Barclays Short-Term Gov/Corp Index
Expense Information (as of the most recent Prospectus)*	0.44% (Gross) 0.35% (Net)
Fiscal Year End	May 31
12B-1 Fee	-
Total Assets (all share classes)	\$4,509,231,882
Percent of Portfolio in Cash	-1.1%

\* The Fund operates under a contractual expense limitation that expires on September 30, 2021.

**PERFORMANCE**

(NAV, total return)

	Three Months	One Year	Annualized			30-Day SEC Yield	30-Day SEC Yield w/o Waiver <sup>°</sup>
			Three Years	Five Years	Since Inception 12/3/12		
Ultra Short-Term Bond Fund	0.23%	5.08%	2.83%	2.39%	1.63%	0.50%	0.43%
Bloomberg Barclays Short-Term Government/Corporate Index	0.07	0.59	1.91	1.52	1.03	-	-

**CALENDAR YEAR PERFORMANCE**

(NAV, total return)

	Inception Date	2013	2014	2015	2016	2017	2018	2019	2020
Ultra Short-Term Bond Fund	Dec 03 2012	0.28%	0.28%	0.41%	2.01%	1.83%	1.87%	3.58%	3.10%
Bloomberg Barclays Short-Term Government/Corporate Index		0.25	0.18	0.26	0.80	0.98	1.99	2.69	1.31

**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.

<sup>°</sup>Excludes the effect of contractual expense limitation arrangements. If the expense waiver was not in effect for the 30-Day period shown, there may not be a difference in the 30-day SEC yields shown above.

The fund is subject to the risks of fixed income investing, including interest rate risk and credit risk.

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

### Credit sectors outperformed Treasuries amid rising rates

A Democratic win in the U.S. Senate runoff elections brought greater political clarity, and the deployment of coronavirus vaccines provided an additional tailwind for riskier assets. Economic data were generally supportive. In February, nonfarm payrolls and the services Purchasing Managers' Index rose as coronavirus vaccine rollouts spurred economic reopening. However, the passage of a USD 1.9 trillion stimulus package, coupled with heightened expectations of economic growth and inflation, sent longer-term U.S. Treasury yields to their highest levels since January 2020.

The Fed made no significant changes to monetary policy during the period and affirmed that they anticipated no rate hikes until 2023. In addition, the Fed said that it will continue purchasing assets.

Against this backdrop, U.S. Treasuries produced negative returns during the period as the yield curve bear steepened. While short-term U.S. Treasury yields remained anchored at very low levels due to the Federal Reserve's accommodative monetary policy, longer-term yields rose on the back of heightened expectations for economic growth and inflation. The yield of the two-year Treasury note rose modestly from 0.13% to 0.16% by period-end. Further out on the curve, upward movements in yields were more substantial, with the yield on the 10-year Treasury rising over 80 basis points, from 0.93% to 1.74%.

The U.S. investment-grade fixed income market generated negative returns in the first quarter as a sharp rise in intermediate- and long-term U.S. Treasury yields hindered performance. However, given a generally supportive fundamental and technical backdrop, credit spreads were little changed, and several spread sectors generated positive excess returns.

Short-term corporate bond credit spreads reached all-time tight levels in February before backtracking in March, due partly to increased front-end supply. The rally across securitized sectors lost some momentum as increasingly tight valuations and heavy new issuance made investors more circumspect.

The T. Rowe Price Ultra Short-Term Bond Fund generated positive returns and outperformed the Bloomberg Barclays Short-Term Government/Corporate Index in the first quarter of 2021. Relative performance was driven by the following factors:

### Sector Allocations Benefited the Portfolio

Sector allocation was the largest contributor to the portfolio's outperformance. Out-of-benchmark allocations to the securitized sector aided relative results amid the general risk-on market sentiment. Positions in ABS, MBS, and CMBS all added value.

Our overweight to corporate bonds and corresponding underweight to U.S. Treasuries also benefited as demand remained strong for risk assets amid the search for yield.

### Security Selection Aided Performance

Security selection within investment-grade corporates further added to performance. Energy credits performed well amid rising oil prices.

### Yield Curve Positioning Modestly Detracted

Yield curve positioning was a modest detractor from relative results as the yield curve bear steepened during the period.

## PORTFOLIO POSITIONING AND ACTIVITY

Relative to the benchmark, we continued to underweight U.S. Treasuries, while aiming to add high-quality yield by overweighting non-Treasury sectors and selectively taking out-of-benchmark positions in higher-yielding securitized debt.

### Risk Profile

In anticipation of rates rising to normal levels, we favor shorter maturity debt, and our duration decreased since the beginning of the year as a result. Furthermore, we have built up liquidity to take advantage of any outward movements in spreads.

### Corporate Bonds

Corporate debt continued to represent our largest absolute and relative position. Despite continued tight valuations and spread levels, investment-grade corporate bonds saw healthy inflows throughout the period as sovereign debt yields remained low globally.

### Other Allocations

We continued to hold out-of-benchmark positions in ABS, CMBS, and non-agency MBS.

## MANAGER'S OUTLOOK

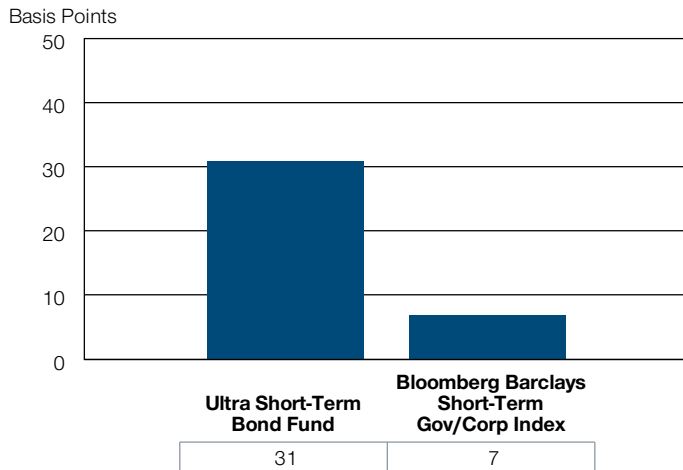
We believe a strong economic recovery is likely in the second half of 2021 if vaccines can rapidly bring down infection rates. In addition, the Federal Reserve's extremely accommodative policies will help support the economy and keep short-term interest rates low for the foreseeable future. While longer-dated U.S. Treasury yields have increased significantly since the start of the year, we believe that stronger economic growth, rising inflation, and accommodative monetary and fiscal policy still leave some room for higher rates, particularly in the intermediate part of the curve.

Although the economic outlook is generally favorable, valuations in the fixed income market no longer appear as attractive as they did after central banks launched their rescue operations in the first half of 2020, and investment-grade credit spreads have tightened with the extended rally. In such a climate, active sector and security selection are likely to play critical roles in seeking yield and managing risk, and we believe that our research platform is well positioned to capitalize on the current market environment.

## QUARTERLY ATTRIBUTION

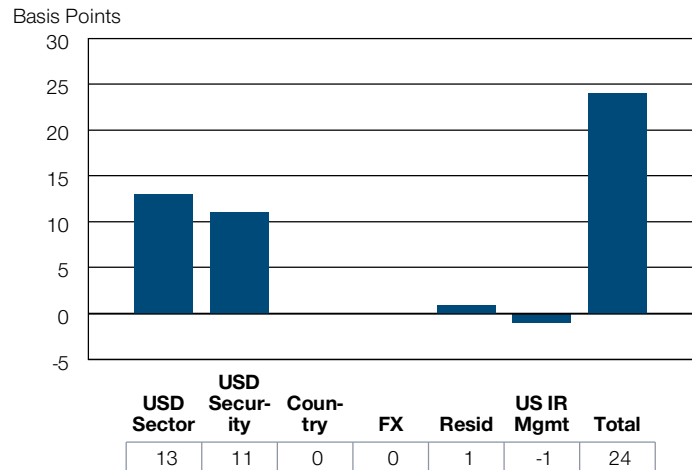
### OVERALL PERFORMANCE: FUND VS. BLOOMBERG BARCLAYS SHORT-TERM GOV/CORP INDEX

(3 months ended March 31, 2021)



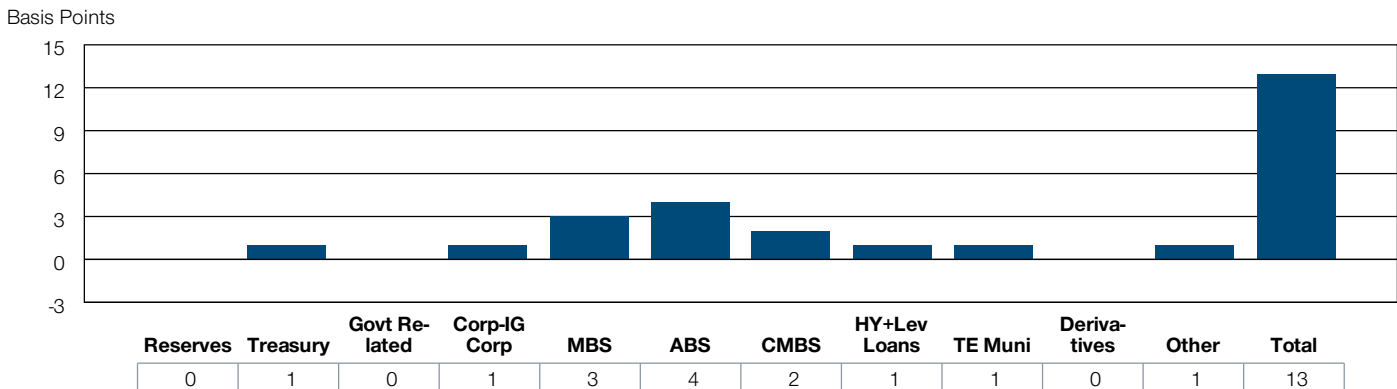
### CONTRIBUTION TO EXCESS RETURN: FUND VS. BLOOMBERG BARCLAYS SHORT-TERM GOV/CORP INDEX

(3 months ended March 31, 2021)



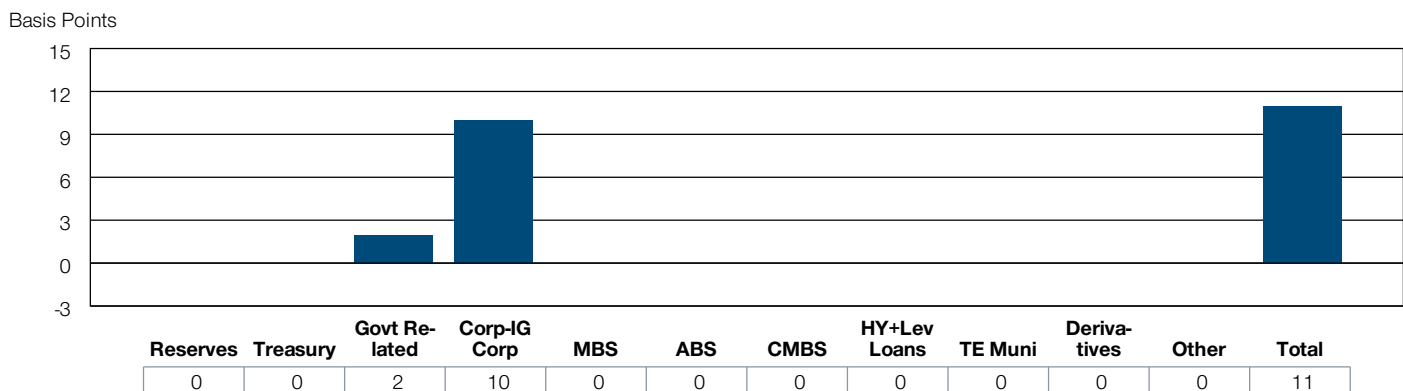
### SECTOR ALLOCATION: FUND VS. BLOOMBERG BARCLAYS SHORT-TERM GOV/CORP INDEX

(3 months ended March 31, 2021)



### SECURITY SELECTION DETAILS: FUND VS. BLOOMBERG BARCLAYS SHORT-TERM GOV/CORP INDEX

(3 months ended March 31, 2021)



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

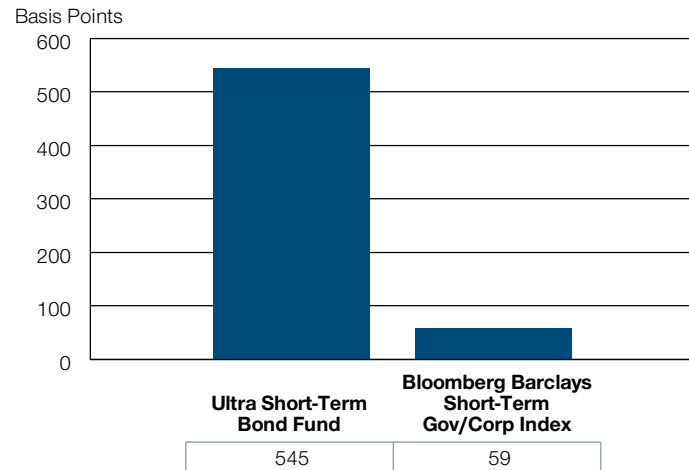
Source: Bloomberg Index Services Limited.

Analysis represents the performance of the portfolio compared to its benchmark as calculated by the Bloomberg attribution model. Performance is attributed to a set of portfolio decisions such as credit quality, duration and yield curve exposures, relative sector weightings, and security selection. Performance for each security is obtained in the local currency and, if necessary, is converted to U.S. dollars using an exchange rate determined by an independent third party. Figures are shown gross of fees. Returns would have been lower as a result of the deduction of such fees. For Sourcing Information, please see Additional Disclosures.

## 12-MONTH ATTRIBUTION

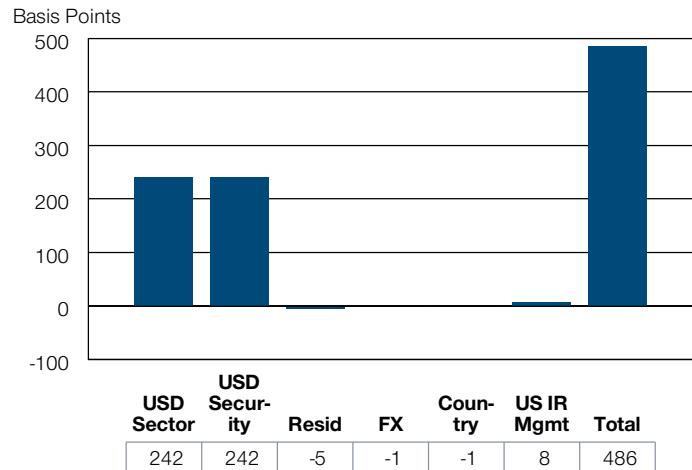
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(12 months ended March 31, 2021)



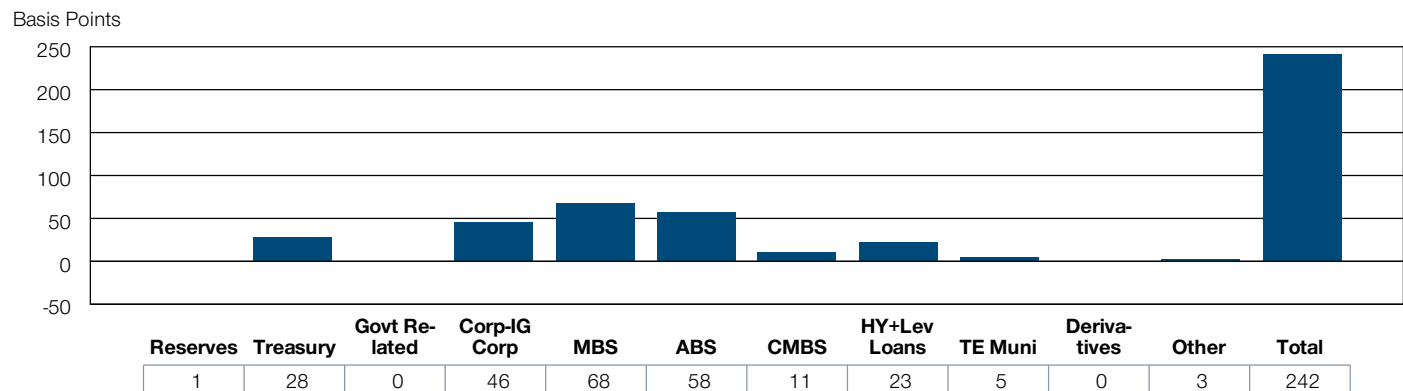
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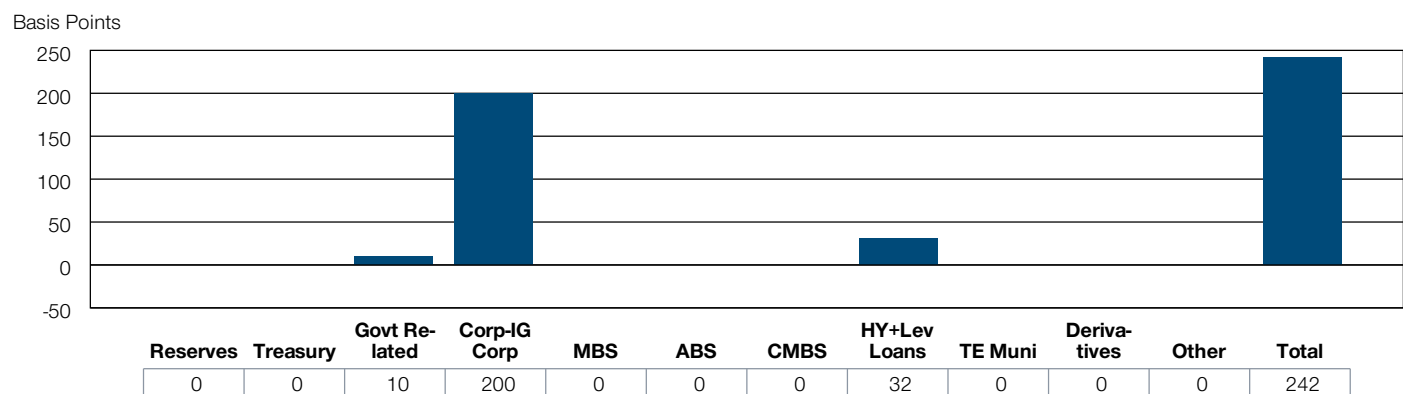
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(12 months ended March 31, 2021)



### SECURITY SELECTION DETAILS: FUND VS. BLOOMBERG BARCLAYS SHORT-TERM GOV/CORP INDEX

(12 months ended March 31, 2021)



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Source: Bloomberg Index Services Limited.

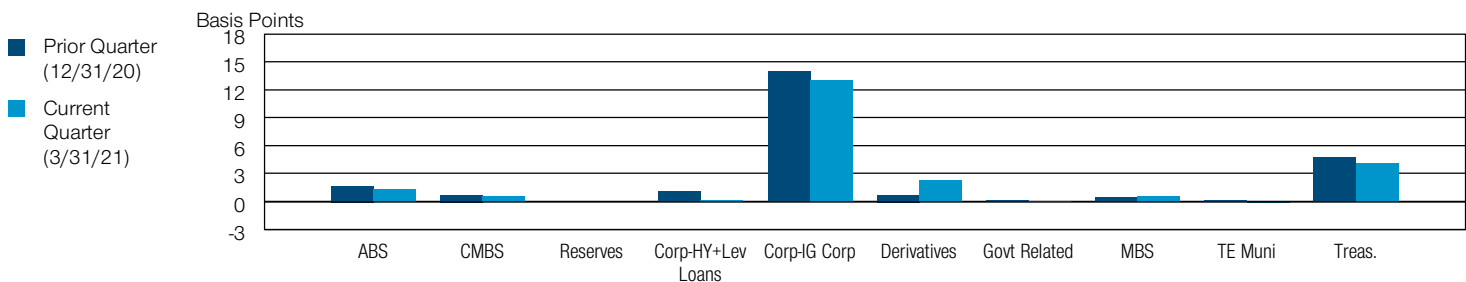
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## RISK ANALYSIS

### RISK FACTOR CONTRIBUTION

	Contribution to TEV (Annualized) 12/31/20 (Prior Quarter)	Contribution to TEV (Annualized) 3/31/21 (Current Quarter)
Systematic	23.1 bps	21.8 bps
Foreign Exchange	0.0	0.0
Curve	-3.1	-2.4
Swap Spreads	3.6	3.3
Volatility	0.0	0.0
Spread Gov-Related	0.0	0.0
Spread Credit and EMG	18.5	16.8
Spread Securitized	4.4	4.3
Spread Other	-0.3	-0.2
Idiosyncratic	0.1	0.0
Credit Default	0.7	0.0
<b>Total</b>	<b>23.8</b>	<b>21.9</b>

### SECTOR CONTRIBUTION TO RISK VERSUS BENCHMARK

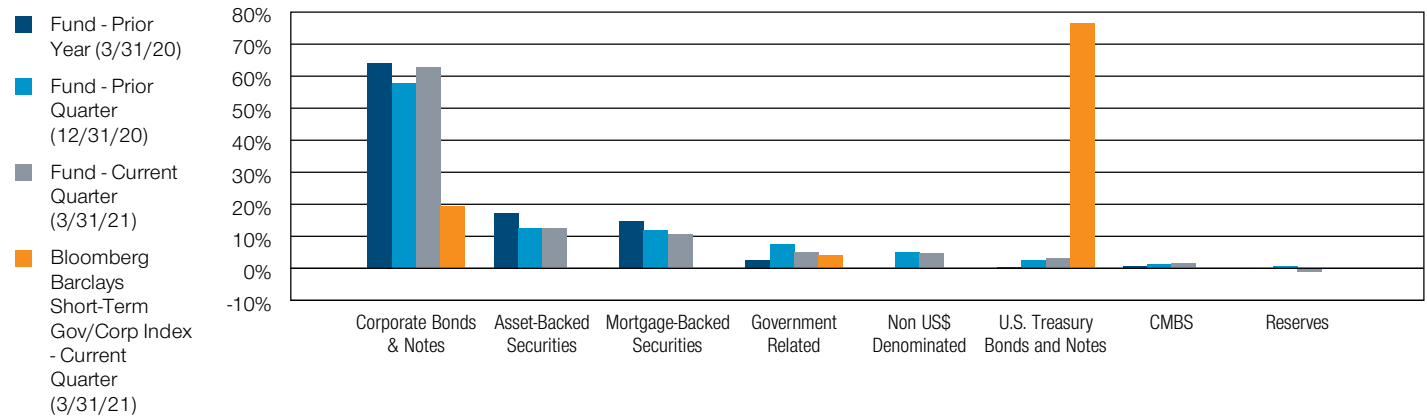


Source: Bloomberg Index Services Limited. Statistics based on monthly data. TEV, or Tracking error volatility, is the standard deviation of the difference between portfolio and benchmark returns. It is the square root of the tracking error variance, or TE variance. The TE variance is the projected variance of the difference between portfolio and benchmark returns. It is estimated from historical return data and from portfolio and benchmark characteristics. It can be decomposed into three sources: Systematic, Idiosyncratic and Default. Systematic (Market) Risk is the risk due to the effect of all systematic factors of the Bloomberg risk model. Idiosyncratic (nonsystematic) risk is the risk not explained by the combination of all systematic or default factors. It represents risk due to non-default events that affect only the individual issuer or bond.

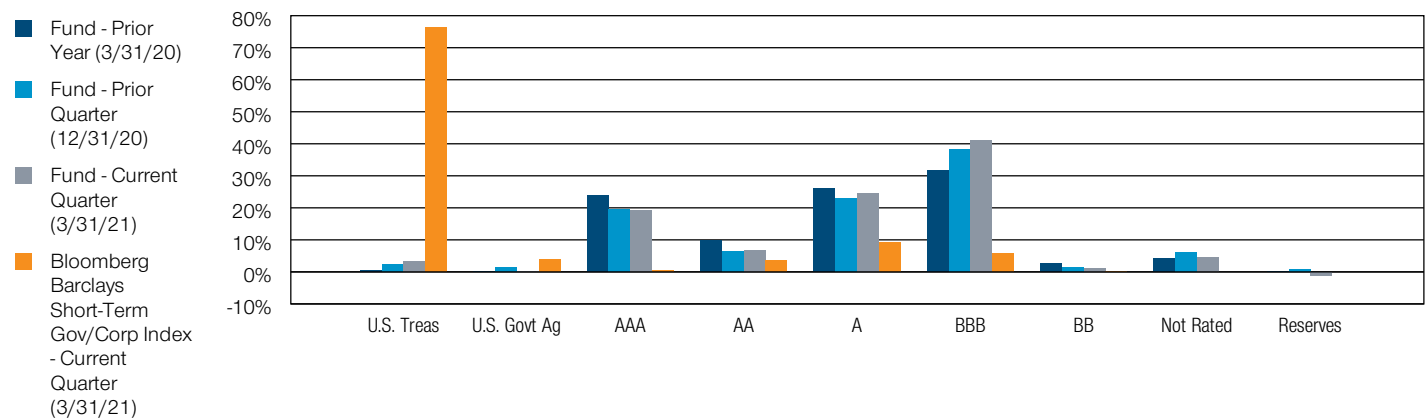
The contribution to TEV is the contribution, in basis points, of a risk factor to total TEV. This measure includes the effect of correlation. The risk factors included in this analysis and shown above are credit spreads, currency, and interest rate duration. This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment actions. **Past performance is not a reliable indicator of future performance.**

## PORTFOLIO POSITIONING

### SECTOR DIVERSIFICATION – CHANGES OVER TIME



### CREDIT QUALITY DIVERSIFICATION – CHANGES OVER TIME



\*U.S. Treasury securities are issued by the U.S. Treasury and are backed by the full faith and credit of the U.S. government. The ratings of U.S. Treasury securities are derived from the ratings on the U.S. government.

\*\*U.S. government agency securities are issued or guaranteed by a U.S. government agency, and may include conventional pass-through securities and collateralized mortgage obligations; unlike Treasuries, government agency securities are not issued directly by the U.S. government and are generally unrated but may have credit support from the U.S. Treasury (e.g., FHLMC and FNMA issues) or a direct government guarantee (e.g., GNMA issues). Therefore, this category may include rated and unrated securities.

## HOLDINGS

### TOP ISSUERS

Issuer	% of Fund
Japan	4.7%
Edison International	1.2
Jabil	1.1
Conagra Brands	1.1
Ovintiv	1.1
Volkswagen	1.1
Energy Transfer	1.0
General Motors	1.0
Walgreens Boots Alliance	1.0
Marathon Petroleum	0.9

For Sourcing Information, please see Additional Disclosures.

## PORTFOLIO MANAGEMENT



**Portfolio Manager:**

Alex Obaza

**Managed Fund Since:**

2020

**Joined Firm:**

2005

Effective 1 January 2021, Alex Obaza assumed sole portfolio management responsibility for the Fund.

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Unless indicated otherwise the source of all data is T. Rowe Price.

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