T. Rowe Price Launches Floating Rate Fund for Individual Investors

New Fund Can Help Investors Manage Interest Rate Risk and Pursue Higher Yields
Recent Survey Reveals Majority of Investors Do Not Understand Interest Rate Risk

BALTIMORE, Aug. 17, 2011 /PRNewswire/ -- T. Rowe Price (NASDAQ-GS: TROW) has introduced a Floating Rate Fund (PRFRX) for individual investors. The new no-load mutual fund represents a second addition to T. Rowe Price's lineup of bond fund offerings this year, following the launch of the Emerging Markets Local Currency Bond Fund (PRELX). Seeking high income, the T. Rowe Price Floating Rate Fund offers long-term investors potentially attractive yields and some protection against interest rate risk by investing in loans to below investment-grade companies.

According to a Forrester Research Inc. survey commissioned by T. Rowe Price in the second quarter of 2011, 56 percent of investors do not understand the inverse relationship between bond prices and interest rates -- that is, when rates rise, bond prices fall and vice versa.

"Investors need to have well-informed expectations of their bond portfolios, so they can invest appropriately for their time horizon," said Stuart Ritter, a certified financial planner with T. Rowe Price. "They should understand that their bond holdings do come with particular risks, one of them being interest rate risk. The Floating Rate Fund has more credit risk than a fund investing in investment-grade securities, but it also can be used to manage interest rate risk and provide higher yields." (Credit risk pertains to a bond issuer's ability to make timely payments on debt obligations).

The Floating Rate Fund invests in floating rate loans or leveraged loans, which have interest rates that reset either quarterly or monthly, usually to a certain percentage above the London Interbank Offered Rate or LIBOR. These loans are arranged or syndicated by banks for companies that usually have a significant level of debt relative to equity and whose loans are rated below investment grade in terms of creditworthiness. Often, the loans are used for recapitalizations, acquisitions, leveraged buyouts, and refinancings.

Many floating rate loans also have a LIBOR floor, which means they pay a certain interest rate even if LIBOR falls. In today's low interest rate environment, LIBOR floors can be especially attractive as they could provide better current income than comparable loans without floors. As of July 31, 2011, about 47 percent of the loans in the Floating Rate Fund have a LIBOR floor.

T. Rowe Price manages $2.2 billion in floating rate strategies as of June 30, 2011, and has managed the Institutional Floating Rate Fund (RPIFX) for advisors and institutional investors since its launch in 2008. Co-managers Justin Gerbereux and Paul Massaro, who manage the Institutional Floating Rate Fund, also will bring their experience to managing the new Floating Rate Fund for individual investors.

"The Floating Rate Fund not only offers higher yields and some defense against interest rate risk, but allows investors to participate in a gradually improving corporate America," says Justin Gerbereux. "That said, I want to remind investors that this fund should not replace low-risk bond investments in a diversified portfolio, as it is a sub investment-grade asset class. However, loans usually are at the top of the capital structure, which means that they are among the first to be paid in the event of a default," Mr. Gerbereux says.

Mr. Gerbereux further explains the Floating Rate Fund's investment strategy in this video.

The minimum initial investment in Floating Rate Fund is $2,500 or $1,000 for retirement plans or gifts or transfers to minors (UGMA/UTMA) accounts. The net expense ratio is estimated to be 0.85%.

The fund's prospectus, which is available on its site troweprice.com/fri or by calling 1-800-541-8803, includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing. T. Rowe Price Investment Services, Inc., distributor, T. Rowe Price mutual funds.

Founded in 1937, Baltimore-based T. Rowe Price (troweprice.com) is a global investment management organization with $520.9 billion in assets under management as of June 30, 2011. The organization provides a broad array of mutual funds, subadvisory services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries. The company also offers a variety of sophisticated investment planning and guidance tools. T. Rowe Price's disciplined, risk-aware investment approach focuses on diversification, style consistency, and fundamental research.

SOURCE T. Rowe Price