T.RowePrice

# T. Rowe Price Q3 2024
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## Corporate Speakers

- Linsley Carruth; T. Rowe Price; Director of Investor Relations
- Rob Sharps; T. Rowe Price; Chair, Chief Executive Officer and President
- Jen Dardis; T. Rowe Price; Chief Financial Officer

## Participants

- Alex Blostein; Goldman Sachs; Analyst
- Michael Cyprys; Morgan Stanley; Analyst
- Benjamin Budish; Barclays Capital; Analyst
- Dan Fannon; Jefferies; Analyst
- Ken Worthington; JPMorgan; Analyst
- Craig Siegenthaler; Bank of America; Analyst
- Glenn Schorr; Evercore ISI; Analyst
- Patrick Davitt; Autonomous Research; Analyst
- Brennan Hawken; UBS; Analyst
- Mike Brown; Wells Fargo; Analyst

## Presentation

**Operator:** Good morning. My name is Daniel, and I will be your conference facilitator today. Welcome to T. Rowe Price's Third Quarter 2024 Earnings Conference Call.

As a reminder, this call is being recorded and will be available for replay on T. Rowe Price's website shortly after the call concludes.

I will now turn the call over to Linsley Carruth, T. Rowe Price's Director of Investor Relations.

**Linsley Carruth:** Hello, and thank you for joining us today for our third quarter earnings call.

The press release and the supplemental materials document can be found on our IR website at investors.troweprice.com.

Today's call will last approximately 45 minutes.

Our Chair, CEO and President Rob Sharps and CFO Jen Dardis, will discuss the company's results for about 15 minutes, then we'll open it up for your questions.

We ask that you limit it to one question per participant.

I'd like to remind you that during the course of this call we may make a number of forward-looking statements and reference certain non-GAAP financial measures.

Please refer to the forward-looking statement language and the reconciliations to GAAP in the supplemental materials as well as in our press release and 10-Q.

All investment performance references to peer groups on today's call are using Morningstar peer groups and for the quarter that ended September 30, 2024.

Now I'll turn it over to Rob.

**Rob Sharps**: Thank you, Linsley. And thank you all for joining our third quarter earnings call.

We closed the quarter with $1.63 trillion in assets under management, up 3.9% from June 30 despite $12.2 billion in net outflows.

While net outflows increased in the third quarter, we are seeing encouraging signs that we are on the right path.

Our active ETF franchise is expanding, we are deepening our retirement leadership position with the launch of innovative retirement solutions, and our associates are advancing our strategic initiatives across the business. We remain on track to reduce net outflows this year.

I'll now turn to investment performance.

Our long-term investment performance remains solid despite softer results this quarter.

In our equity franchise, U.S. mid-cap value, U.S. equity research, integrated U.S. small mid-cap core equity and integrated global equity, all continue to be top quartile performers for the one, three- and five-year time periods.

In our ETF franchise, our semi-transparent U.S. equity research ETF now has top quartile performance for both the 1- and 3-year time periods, and in our more recently launched transparent equity ETFs, the growth and small mid-cap ETFs remain top quartile performers for the one-year time period.

In fixed income, our muni strategies continue to be strong performers as do our floating rate and ultra short-term bond ETFs, both of which have top quartile performance across multiple time periods.

While underlying stock selection and an overweight towards U.S. equities were detractors to relative performance in the third quarter, our flagship retirement funds and the new retirement blend funds continue to have strong long-term performance. Over 90% of our target date assets are in the top quartile for the 5-, 10- and 15-year time periods on an AUM basis.

Returns across alternative strategies were positive during the quarter and broadly consistent with the constructive market backdrop. Private, structured, and liquid strategies generated stronger results, while distressed and special situations lag.

As I shared earlier, third quarter net outflows totaled $12.2 billion.

We do expect further increases in net outflows during the fourth quarter, reflecting seasonal trends and a large sub-advised variable annuity termination now expected in late Q4.

Even with this loss, we remain on track to reduce net outflows this year, although not as significantly as we had previously expected. Excluding the VA termination, we estimated 2024 net outflows to be less than half of 2023 levels.

Jen will share more detail in a moment, but I want to underscore that while this unanticipated loss was deeply disappointing, it doesn't undo the progress we have made in other areas.

We are expanding our ETF business and deepening our leadership in retirement with innovative new strategies.

With our recently launched technology ETF, we provide investors our first sector-focused, fully transparent portfolio with the tax-efficient, convenient and cost-effective benefits of the ETF wrapper.

We also recently launched two new retirement offerings, Personalized Retirement Manager and Managed Lifetime Income.

Personalized Retirement Manager is the industry's first managed account designed to create a unique asset allocation tailored for the individual, incorporating personal data into the proven life cycle investing philosophy and processes that underpin our leading target date strategies.

Managed Lifetime Income is a new retirement solution designed to provide retirees in a defined contribution plan with stable and predictable monthly income for life. Managed Lifetime Income combines a managed payout investment from T. Rowe Price with a qualifying longevity and annuity contract from Pacific Life to offer a unique union of professional asset management and guaranteed monthly payouts.

We are also seeing increased client interest in co-developing and customizing our target date capabilities and were notified of a sizable custom glide path win expected next year.

We are reaching key milestones in areas beyond retirement as well.

We had our first close for OLEND, our Senior Private Lending Fund, which drove much of this quarter's $3 billion increase in unfunded capital commitments.

Our focus on U.S. wealth resulted in new relationships that are launching this year, new placements in home office models, and more partnerships focused on ETFs and SMAs.

Finally, despite the VA termination I noted earlier, our weighted net pipeline grew quarter-over-quarter, suggesting that elevated fourth quarter outflows are not indicative of the underlying trajectory of our business.

I want to recognize the tremendous work our associates are doing on behalf of our clients, our firm and our stockholders. It's their focus on continuous improvement and their agile mindset that are driving our progress.

I'll now turn to Jen to provide an overview of our financial results.

**Jen Dardis:** Thank you, Rob, and hello, everyone. I'll review our third quarter results before opening the line for questions.

Our adjusted earnings per share of $2.57 for Q3 2024 is up over 18% from Q3 of last year, driven by higher average AUM, higher adjusted operating income and a lower effective tax rate. These factors also drove a nearly 14% increase in EPS from Q2 of this year.

We reported $12.2 billion in net outflows this quarter, which is an improvement from Q3 2023, but higher than the first half of 2024.

U.S. equity products remain the primary driver of outflows, particularly in our growth strategies. Our U.S. equity research strategy, however, had net inflows of over $1.5 billion this quarter.

We also had positive net inflows across fixed income, multi-asset and alternatives. Within multi-asset, we had another strong quarter in our target date franchise with net inflows of $3.6 billion. Our year-to-date inflows of $14.1 billion outpaces the active industry growth rate, particularly in the blend category.

Our ETF business had just under $1 billion of net inflows in the quarter, bringing our September 30 AUM to over $6.5 billion. And outside the U.S., we had positive net inflows driven by global equity in the APAC region and alternatives in the EMEA region.

As Rob mentioned, we were recently notified of a large subadvised variable annuity termination.

We expect that nearly all of the assets related to this termination will be redeemed during the fourth quarter. Given the size of this outflow, I want to provide some background on our VA business, which you'll find on Page 15 of the supplement.

At a high level, we provide investment management services for VA products sold by insurance company sponsors. In some cases, we are the sole manager and the product may be branded as T. Rowe Price, while in other cases, we're one sleeve of a multi-manager product.

Our VA assets are $104 billion or a little over 6% of our total AUM, which is down from 9% in 2019. Similar to the overall VA industry, our VA business has experienced net outflows for the past several years, and we don't expect that trend to change meaningfully.

That said, given the large fourth quarter termination, the level of VA outflows for the full year 2024 will be higher than we would have otherwise expected.

While this area is not an organic growth driver for the firm, this book of business has many long-standing and important clients, and we will continue to deliver on their behalf.

Shifting to our financials, our Q3 adjusted net revenues were $1.8 billion, which is up 7% from last year and up 3% from the second quarter, driven by higher investment advisory revenue from higher average AUM.

Our Q3 annualized effective fee rate of 40.9 basis points declined from Q3 2023 and Q2 2024 as assets continue to shift into lower fee vehicles and asset classes. This quarter's investment advisory revenue of $1.6 billion included $5.6 million in performance-based fees from alternatives products, primarily from the BDC.

Our adjusted operating expenses of $1.1 billion were up 3.6% from Q3 2023 due mainly to increases in compensation, benefits and related costs and distribution and servicing fees on higher AUM. While G&A is also up from last year, Q3 2023 included a $20 million nonrecurring cost recovery.

Our adjusted operating income of $718 million was up 13% from Q3 2023 and almost 10% from last quarter.

For the balance of the year, we continue to expect 2024 adjusted operating expenses, excluding carried interest expense, to be 6% to 8% over the comparable full year 2023 amount of $4.19 billion.

While we're at the bottom end of this range through nine months, similar to last year, we anticipate an increase in the number of expense categories in Q4, some of which are due to seasonal factors and timing and will not carry into the 2025 run rate.

Notably, our stock-based compensation is typically higher in December given the timing of our annual grants, and we expect advertising and promotion expenses to be higher due to the seasonality of our advertising efforts. We are also forecasting higher professional fees as we complete projects before the close of the year.

Turning our attention to capital management, we repurchased $71 million worth of shares during the third quarter, bringing the year-to-date value of buybacks to nearly $264 million. We feel comfortable with our current pace of buybacks as we evaluate repurchases through the remaining months of 2024.

Combined with the quarterly dividend of $1.24 per share, we have returned over $1.1 billion to stockholders in the first nine months of the year. Our balance sheet remains strong, with over $3.6 billion in cash and discretionary investments at the end of Q3.

As we approach year-end, our teams are focusing on 2025 and identifying the areas where we will invest to drive future growth and deliver new capabilities to best serve our clients. We will continue to balance this investment with the need for ongoing expense discipline.

And now I'll ask the operator to open the line for Q&A.

# Questions and Answers

**Operator:** And our first question comes from Alex Blostein with Goldman Sachs.

**Alex Blostein**: Rob, would love to get your perspective on the organic growth, to start a good perspective on the VA business on Slide 15. I think you mentioned that you guys obviously made progress on the business, excluding the VA sub-advisory outflows expected to be, I guess, less than half of the outflows that you saw last year.

That still, I think, implies a pretty meaningful step-up in outflows in Q4, excluding the VA sub-advisory issue. So maybe just unpack what you're seeing in the fourth quarter and whether or not the outflows there on a kind of core basis are also a bit more elevated than normally? And any thoughts you have for '25 would be appreciated as well.

**Rob Sharps:** Yes. Alex, Specifically, as it relates to '24, I would say that what we're seeing outside of the specific VA mandate is pretty consistent with typical seasonal patterns. We tend to have a little bit more in the way of redemption pressure in the fourth quarter and particularly near year-end. Outside of that, I think the underlying trends are pretty clearly headed in the right direction.

So, if I take a step back, as you said and as I noted earlier, that -- excluding the VA loss, ‘24 outflows would have been less than half of ‘23 levels. I think that reflects pretty substantive progress relative to where we were.

Regarding ‘25, I would say we expect sizable further improvement as we trend toward positive flows. And if you take a step back and think about the trends and drivers, active equities as an asset class and mutual funds as a vehicle are in outflow and have been for some time. That said, I think there’s meaningful room for improvement in active equities given performance improvement in a few of our key franchises, notably large cap growth, where we’re seeing both gross sales and redemptions following improved performance and trending in the right direction.

Outside of that, we have positive flows in all of the other asset classes and in most other vehicles. Gross sales are up in all but one of our channels and geographies year-over-year so far in ‘24.

We continue to expect strong growth in retirement date funds in ‘25 and beyond. So, this year, year-to-date is up relative to last year. We expect the year to be up and feel very good about the momentum that we have across the retirement date franchise.

In ‘25, you can expect that we’ll have a larger contribution from alternatives, ETFs and SMAs.

I also think we have opportunity to build further momentum in fixed income, especially in areas like insurance. And we have work to do to bring those opportunities to fruition, but they’re out there, and I think we’re well positioned to capitalize on it.

Flows are really hard to predict. I’d say it’s very difficult to say whether all of this will be enough to move us into positive territory in ‘25.

My base case at this point, based on our most current forecast is that we will make meaningful further progress. But, but won’t get there for the full year.

Regardless, I think we’ll demonstrate that we’re on a path that will take us back to organic growth, whether we get there in 2025 or not. Jen, would you add anything?

**Jen Dardis:** No. I think you covered it.

Operator: And our next question comes from Michael Cyprys with Morgan Stanley.

**Michael Cyprys:** I just want to ask about retirement. I was hoping maybe you could just update us on the -- your views there on the retirement market, competitive landscape.

Some of the steps you guys are taking to drive growth in the retirement channel including the new lifetime managed payout product. Maybe you could talk about how that works your go-to-market strategy for that, how you sort of plan to build traction? And then I think you mentioned a glide path win for next year. Maybe you can help quantify that.

**Rob Sharps:** Yes. So the specific win that we referenced is a custom glide path win.

So as you know, we have a tremendous amount of research behind our life cycle investing approach, and we have a glide path that underlies the asset allocation of our target date funds.

There are certain instances where you have a plan sponsor that wants a glide path that is designed specifically to the demographics of their participant pool. And for us, typically, a fee for that would be relatively small, and it would come in as AUA, so it wouldn't come in the investment advisory fee line. So that was what that specific reference was.

In terms of broad trends, I would say we've got a lot of momentum across our set of offerings, flagship retirement date fund, but also blend. Our pipeline there is very strong.

Specifically, as it relates to the two new products that were launched, they are launched on our recordkeeping system, which I think shows the strategic benefit of having a record keeper.

Personalized Retirement Manager is a managed account strategy that's customized based on input from the participant in addition to just their estimated retirement date. And we think it's particularly compelling. It uses a lot of the research and assumptions that underlie the core target date franchise, but custom tailor it to the particular interest and positioning of the underlying participant. I would also say that the fees on that are attractive relative to other managed account offerings in retirement overall.

Finally, with regard to the lifetime income product that incorporates a QLAC, we think it's a compelling design structure. It's also initially being launched on the T. Rowe Price record-keeping platform.

Both products are new to market. But in time, as we build scale and demonstrate the attractiveness, we expect to be able to extend them to other record-keeping platforms in time.

**Jen Dardis:** Yes. I might just add. I mean you asked about the go-to-market strategy and many of the things that Rob highlighted, as you just mentioned are on our record-keeping platform.

But we serve retirement plans not only on our own recordkeeping platform, but even more so on what we call DCIO, our DC investment-only strategy. And we have opportunities to either provide our target date products or over time to be able to sell some of these more extended strategies, but also to be able to participate as a sleeve in certain cases of other people's products that they're developing.

**Rob Sharps:** Yes. We've really leaned in to build our partnership with a number of the leading retirement franchises, both firms that focus on retirement consulting, but also the record-keeping platforms.

We worked hard with co-development and as a result of that, I think we're very, very well positioned with our suite of retirement date products as well as some of the things that we're doing for retirement income across recordkeepers, not just on T. Rowe Price recordkeeping platform.

Operator: Our next question comes from Benjamin Budish with Barclays Capital.

**Benjamin Budish:** I wanted to ask about private credit. I guess maybe kind of a two-parter.

First, can you remind us how much of the business is sort of related to like senior direct lending? Just thinking about sort of the opportunity set going into next year if has -- what the market seems to be expecting happens, which is that we see a big pickup in transacting activity. How are you positioned for that?

And then Rob, you mentioned something about doing more on the fixed income side in insurance. I'm curious to what extent could that perhaps be related to private credit or what else did you mean there?

**Rob Sharps:** Yes, Ben, I'll take the latter part of the question first.

Specifically with regard to opportunities in insurance, it's really across our fixed income business.

Insurance Fixed -- insurance general account tends to have very, very sizable investments in investment-grade corporate credit and we see some opportunity there. We also would see opportunity to offer private credit and alternative strategies to insurance investors.

I think many insurance investors are looking to increase yield on their underlying portfolio and looking to private strategies as a way to do that attractively on a risk-adjusted basis. That would basically improve their own economics, but also improve the attractiveness of their underlying products.

So it certainly would incorporate opportunities with OHA, but wouldn’t be exclusive or limited. I think it would also include opportunities on the liquid side, potentially both with OHA, but also with T. Rowe Price’s fixed income platform.

Specifically, as it relates to private credit, dedicated senior private lending is not an area that OHA historically had operated -- had offered to their clients.

They’ve got a lot of experience in private credit broadly, but they have actually closed their first dedicated senior private lending fund.

If you zoom out a little bit, OHA had a record quarter of capital raising, $5.5 billion of new capital commitments this quarter, bringing the year-to-date number to over $9 billion. And I would say a meaningful portion of that, a notable portion was in private credit.

So they closed their first close on their senior private lending fund, which was $2 billion. So these increased capital commitments will boost flows as the capital is deployed. So that will be based on where there’s origination and where OHA sees opportunities, but I’m pretty confident based on what we’re seeing from a capital commitment perspective that alternatives’ flow should accelerate into 2025.

Operator: Our next question comes from Dan Fannon with Jefferies.

**Dan Fannon:** Rob, I wanted to follow up on your comments around the institutional backlog, building ex the sub-advised mandate.

So can you put some context around that in terms of the products? And ultimately, how you think about, I guess, the sales cycle here today? Is that -- the funding is that looking into next year? Or is that more of the kind of three, four months kind of window?

**Rob Sharps:** Yes. Thank you for the question.

It is over a year, it is a weighted pipeline. It’s not just institutional. It is really across our book of business, and it’s across asset classes.

So basically, we have mandates that are risk-weighted and marked at risk as well as opportunities that are risk-weighted. And I think it was very notable that despite the fact that we were notified of this sizable termination that the risk-weighted pipeline actually increased on a quarter-over-quarter basis.

Now this particular mandate was partially marked at risk but not fully kind of marked at risk, which it clearly is now given that we’ve been notified of termination.

But we were able to, on a risk-weighted basis, bring in enough new opportunity that we think will close over the course of the next 12 months that despite taking that to full loss that the pipeline has increased. And

I would say that it's broad based. Again, I think it is reflective of the trends that you see in the underlying business.

It is less at risk and more opportunity in active equity in particular, large growth. It's continued momentum in equity in areas like Structured Research and in certain of our global equity strategies. It shows some momentum in fixed income and clearly a very nice pipeline across the retirement date suite.

Operator: Our next question comes from Ken Worthington with JPMorgan.

**Ken Worthington:** In terms of your ETF franchise, to what extent is it expanding your customer reach and allowing you to get into different distribution channels? And to what extent is it just sort of cannibalizing your existing fund assets for an extra basis point? And in terms of the cost of distribution here for ETFs, is it any different than kind of what you're paying for access with the fund franchise?

**Rob Sharps:** So on the first part of the question, Ken, I would say there's some element of both, right. In other words, I think there are some buyers that have historically used open-ended mutual funds that at the margin have a preference, particularly if the same strategy is available for ETF. That said, we have a number of strategies that we're offering in ETF, particularly the fully transparent suite that are not strategies that are available in open-ended fund.

I'd also say that we're reaching a different set of buyers. There are a number of advisers that are exclusive to ETF.

So by definition, historically, they wouldn't have been involved in our open-ended fund. We actually just hosted a due diligence event for a number of ETF-focused advisers here. So I do think we are reaching new buyers.

I think in particular with several of those strategies that aren't offered in open-ended fund, we can clearly ascribe that to being an incremental opportunity.

But there has to be some element, particularly with the semi-transparent clones, of cannibalization.

I can't say that we see a lot of people moving from one to the other. You have to remember, a lot of the investors in the open-ended funds have sizable embedded gains. So it will be costly for them to sell the open-ended fund just to buy the ETF.

I think there are a lot of wealth platforms that prefer not to offer the same strategy in both vehicles. So I think we can say with reasonable confidence that a substantial portion of what we're getting in the ETF business is new and incremental. But there clearly is some cannibalization.

With regard to cost to access, I would say it really is no different. I mean it really varies by platform. We have some partnerships with folks that are focused on ETF that we're developing.

And I would say the same sort of distribution economics apply to ETFs that they do to open-ended funds with the exception being that you don't have kind of some of the nonmanagement fee expense ratio opportunity with an ETF that you do with an open-ended fund.

Operator: And our next question comes from Craig Siegenthaler with Bank of America.

**Craig Siegenthaler:** Hope you're all doing well. I have a follow-up to Mike's question on managed lifetime income. So many view the rider as a positive by recreating a defined benefit-like experience for retirees.

But I was curious on the IR math by adding an insurance guarantee onto our 401(k) investment product just given the added cost and they take away downside risk, but what is the annual cost of these riders? So essentially, how does it impact the long-term return math?

And given that 401(k) plan sponsors are generally pretty fee-sensitive, how does the guarantee get around that constraint?

**Rob Sharps:** Yes. That's a pretty specific question. I think to get into the detailed specifics, I'll have you follow up with Linsley. But look, we think this is a really well-designed product.

We think incorporating the QLAC and having the guaranteed payout start on a deferred basis creates a more optimal outcome for the plan participant.

I think our team believes that marrying it with a T. Rowe Price managed payout option gives a tremendous amount of flexibility in the early years of retirement when the participant is more active and may require greater flexibility, and then the guaranteed payout comes later in life where it ultimately becomes more important.

Specifically with regard to the trade-offs and the economics, QLACs are quite affordable relative to other fixed annuities. So kind of ultimately, there is some cost to getting the guarantee, obviously. But in terms of the specific economics, I probably should have somebody from that team and Linsley follow up with you on that.

**Jen Dardis:** And part of the design of it is that it's not the full amount of the assets that the client has. So you're designed to do a small portion of it, so that you're balancing the risk and cost trade-off.

Operator: Our next question comes from Glenn Schorr with Evercore ISI.

**Glenn Schorr:** A quickie, how close do you think we are to seeing private market allocations inside target date funds and retirement plans? And maybe more importantly, how are you thinking about leveraging the great T. Rowe Price brand and distribution network, specifically related to private markets?

**Rob Sharps:** Yes, Glenn, I'd say it's really hard to know. Obviously, we've got an election next week, and the results of that election will determine kind of where we're headed from a regulatory perspective.

Look, I think there's a lot of discussion and potentially some interest. But until we get some regulatory clarity, I think it's unlikely to happen. So, we don't have a lot of visibility on when that will happen, let alone how it would happen.

I think we have a tremendous amount of flexibility, kind of once there is an interest among plan sponsors to incorporate private market alternatives into defined contribution offerings and things like target date funds to be thoughtful about how we would incorporate.

What we would do that is related to OHA or T. Rowe Price proprietary, who we would partner with. We've had a lot of discussions and done a lot of work. And I think we have a really good sense of what our range of options are.

But as things stand, I'll reiterate what I've said before. The - the defined contribution market is a fee-sensitive market, and the record-keeping platforms are not designed to deal with the lack of daily pricing, lack of liquidity that private market alternatives would introduce.

I'll also say that, again, there is not any clarity at all from a regulatory perspective with regard to incorporating private market alternatives. And I think many plan sponsors are quite concerned with regard to litigation.

So I think it's some ways out. I think even once you get regulatory clarity, getting the plan sponsors to buy in and getting the infrastructure in place to incorporate and accommodate it will take some amount of time.

But what -- I guess, my message to you is that I think when that happens, we'll be an extraordinarily attractive partner. It will create an opportunity for us with some of the things that we do inside of T. Rowe Price. And whatever we do, we'll make sure that it's attractive and compelling as part of our offering to plan sponsors and participants.

That wasn't such a quickie.

Operator: Our next question comes from Patrick Davitt with Autonomous Research.

**Patrick Davitt:** Thanks for the VA disclosure, helpful. Could you remind on the makeup of the client base of the other $85 billion and why that's stickier than the VA side?

**Jen Dardis:** Sorry -- so the rest of the other $85 billion or thereabouts based on once we would have the outflow, they are VA, I just want to clarify, you said that outside of VA, but those are -- oh, I'm sorry, I'm getting the clarity. There are other $85 billion outside of the VA. I just want to clarify because there could be some discontinuity between those numbers.

**Patrick Davitt:** Yes, the non-VA

**Jen Dardis:** Yes. Sorry. So in other cases, we are the sub-advised carrier for other types of plans outside of variable annuity. And that could be in retirement, that could be in -- it's well primarily in retirement. And those assets tend to be more sticky. I don't know that I would go into more detail than that.

**Rob Sharps:** Yes. I think we're not seeing the same trends across the sub-advisory platform that we're seeing within VA. VA is a business that several of our clients have deemphasized or within their portfolio have lost share to fixed index annuities, RILAs, fixed annuities in a higher rate environment.

So the underlying product is one that kind of -- while still important and still prioritized by certain of our clients across the book, that's not necessarily the case.

The rest of the sub-advisory business, which would be across wealth and retirement, doesn't face some of that same underlying pressure, so the trends would not be consistent with what we're showing in VA.

Operator: Our next question comes from Brennan Hawken with UBS.

**Brennan Hawken**: The performance this quarter seem to take a rather meaningful hit, especially on a one-year basis. Could you maybe provide some color around what you think might have driven that? And any potential adjustments or actions you guys could be taking on the back of it?

**Rob Sharps**: Yes. Sure. In terms of what drove it, I don't want to get into too much detail around one specific quarter, and I won't make -- I don't want to kind of make too much of one quarter, but it wasn't a great quarter.

I would say that there was a pretty meaningful risk on rallying once it became clear that the Fed was going to cut 50 basis points in September, and a lot of our portfolios weren't as well positioned for that, if you had to generalize, again, it’s difficult to generalize across the range and breadth of what we do. But look, I’m the first to acknowledge that the aggregate statistics as they stand today are soft and not where we want them.

But I would say it’s a moment in time. I’m really confident in our research platform and our portfolio managers. I think if you look at the year-to-date in the one year, there’s clear continued improvement in important franchises including U.S. Large Cap Growth. I think the performance of our U.S. Structured Research strategy shows that the research platform is very strong.

In my prepared remarks, I mentioned a number of places where the numbers are really good. There are clearly places we need to do better, but I’m confident that we have an approach that will deliver over time. And I don’t think there are any kind of drastic measures or steps that we’ll need to take in order to deliver performance.

I’d also say that we’re at a point now where if you look at the starting point for three and five year in particular, the very poor performance year in 2022 looms pretty large. That poor performance period actually started in Q4 of ‘21. So for a number of our big strategies, we start to begin to roll off that period where we were in a negative performance cycle.

So as long as we do our job over the course of the next several quarters, I expect those aggregate metrics to steadily increase or improve.

Operator: And our next question comes from Mike Brown with WFS (Wells Fargo).

**Mike Brown:** Jen, I appreciate the expense comments for next quarter and for the full year. I guess I know it’s early in probably the planning process. But as you look to 2025, how are you thinking about expense growth next year? And what are some kind of key areas of investment that you’ll be focusing on next year?

**Jen Dardis:** Sure. Thanks for the question. So we are still in the middle of our annual planning process, and I’m not prepared to give formal guidance on 2025 today.

But with that said, similar to last year, our ingoing goal, as we’ve been going through the planning process, has been to roughly try to align expense growth with forecasted revenue growth on a planned basis, assuming our current AUM trajectory and average market returns.

So last year, we started the year with 3% to 5% expense growth, excluding carried interest comp, and have increased that range to 6% to 8%, based on higher average market returns and the resulting higher market-driven expenses.

If you think about where we are with revenue momentum from ‘24 into ‘25, it’s stronger this time than last year. So, I would expect our opening expense guide would be a little bit higher than last year, but we won’t get to a final number for you all until next quarter.

We’re mindful of balancing those areas of investment, as you mentioned, with the need to manage expense growth.

If we think about the places where we’ve been investing, it’s really behind the momentum that Rob mentioned earlier, investing in the ETF franchise, some of our other vehicles, continuing to expand our marketing and reach outside of the U.S., continuing to invest behind our alternative sales plans and platforms, and continuing to invest in ways to make sure that we can be more efficient in our core operating and operations and technology.

Operator: Thank you. I’m showing no further questions at this time. I would now like to turn it back to Rob Sharps for closing remarks.

**Rob Sharps:** All right. Very good. Thank you all for your questions and your interest in T. Rowe Price. And we look forward to speaking to you next quarter.

**Operator:** This concludes today’s conference call. Thank you for participating. You may now disconnect.