



T.RowePrice

T. Rowe Price Q4 & FY 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
- **Eric Veiel**; T. Rowe Price; Head of Global Investments

Participants

- **Bill Katz**; TD Cowen; Analyst
- **Benjamin Budish**; Barclays Capital; Analyst
- **Glenn Schorr**; Evercore ISI; Analyst
- **Craig Siegenthaler**; Bank of America; Analyst
- **Daniel Fannon**; Jefferies; Analyst
- **Patrick Davitt**; Autonomous Research; Analyst
- **Kenneth Worthington**; JPMorgan; Analyst
- **Brennan Hawken**; UBS; Analyst
- **Alexander Blostein**; Goldman Sachs; Analyst

Presentation

Operator: Good morning. My name is Daniel, and I will be your conference facilitator today. Welcome to T. Rowe Price's Fourth 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 fourth quarter earnings call.

The press release and a 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, CFO Jen Dardis, and Head of Global Investments Eric Veiel will discuss the company's results for about 20 minutes. Then we'll open it up to 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.

All investment performance references to peer groups on today's call are using Morningstar peer groups and for the fourth quarter that ended December 31, 2024.

Now I'll turn it over to Rob.

Rob Sharps: Thank you, Linsley.

I'm joined today by Jen Dardis, Chief Financial Officer, and Eric Veiel, Head of Global Investments.

They will provide a view of our 2024 financial and investment performance in a moment.

But first I'd like to share a few thoughts on the year.

As noted in our earnings release, we closed 2024 with \$1.6 trillion dollars in assets under management and \$43.2 billion dollars in net outflows.

Despite the large subadvisory redemption that we discussed on our third quarter call, net outflows for the year were reduced by nearly half year over year and 30% from 2022.

This trajectory demonstrates the progress we're making. Our associates are advancing key growth initiatives. The pace of redemptions is slowing with improved investment performance, and we are gaining traction on gross sales.

I am optimistic that we remain on the path to positive flows, and we are on pace to further reduce outflows again this year.

We are seeing successes that support our optimism. I will share a few highlights from 2024.

- We are growing our ETF business. With the 2024 launches of Technology and Intermediate Municipal Income, we now have 17 exchange traded funds—and 13 of those 17 are scaled with at or over \$100 million dollars in AUM. All told, we closed the year with almost \$8 billion dollars in assets under management in our ETF business.
- Our target date franchise remains an industry leader, with net inflows of \$16.3 billion dollars for the year. We launched our first target date portfolios for Canadians and are seeing more interest in customized solutions and in the blend category.
- We are delivering innovative retirement offerings, including Personalized Retirement Manager and Managed Lifetime Income. We are also helping clients navigate change and pursue better outcomes through the Social Security Optimizer tool and our 5-Dimensional Framework which evaluates retirement income offerings.
- We are extending our alternatives business —launching our first interval fund and securing our first close for a private lending fund. We are leveraging our relationships in the wealth management channel—hosting nearly 2,000 alternatives-related meetings with advisors in 2024.
- We are making significant inroads in insurance, with a large insurance general account win in 2024 and the recently announced plans for a strategic partnership with Aspida. Through this partnership, we expect to manage both public and private assets for Aspida. This highlights our continued commitment to the expansion of our insurance business and to delivering innovative investment

opportunities for our clients. We look forward to the opportunity to develop tailored solutions with Aspida and other insurance partners over time.

- We were also pleased our gross sales were up substantially for the year. Our net pipeline ended the year stronger than a year ago, largely driven by an increase in new opportunities, but also aided by a decline in assets deemed at risk.
- Client satisfaction scores remain strong across client types.
- We are expanding strategic partnerships in order to bring our products and insights to more advisors and clients—including an agreement that provides access to an additional 10,000 financial advisors and 2 million end clients.
- We are unlocking new ways to connect with clients and prospects globally—with a refreshed brand, new advertising, and new partnerships.
- Our balance sheet remains strong, and we returned over \$1.4 billion dollars to stockholders in 2024. We continue to prioritize the recurring dividend, while maintaining ample liquidity to support our seed capital program, opportunistic buybacks, and potential M&A and strategic investments.

While our path to positive flows will not be a straight line, we expect 2025 will be better than last year. We are building momentum, and these successes are indicators that we are moving in the right direction.

Before I handoff to Jen for a more detailed view of our financial results, I want to thank our associates for their dedication to our clients and to our firm. My optimism in our path forward is grounded in my confidence in our associates and their work, our ability to deepen our value to—and our connection with—our clients.

With that, I'll turn to Jen.

Jen Dardis: Thank you, Rob, and hello everyone. I'll review our financial results before turning to Eric.

Our adjusted diluted earnings per share for Q4 2024 was \$2.12, bringing full year adjusted diluted EPS to \$9.33, which is up 23% from 2023 on higher average AUM and investment advisory revenue.

We had \$19.3 billion in net outflows for the quarter, which as Rob mentioned, brings our full-year net outflows to \$43.2 billion, a significant improvement from 2023.

The previously disclosed subadvised variable annuity redemption was the primary driver of outflows in November and December. However, this was partially offset in December by a few large wins in US Equity from wealth management and institutional clients and with continued success in fixed income from the insurance channel.

We saw signs of strength across assets classes and channels this quarter and, in a few areas, ended the year with positive flows.

Our target date franchise had \$2.2 billion of net flows, its strongest Q4 since 2019, resulting in full year target date inflows of \$16.3 billion. This momentum was largely driven by the increasing success of our blend products.

Fixed income and alternatives had positive net flows for the fourth quarter and full year. And from a channel perspective, the EMEA and APAC regions and the Americas institutional channel also had positive net flows for these timeframes.

Within our growing ETF franchise, we had \$1.4 billion in net flows during the fourth quarter, increasing our full-year net inflows to \$4.7 billion. Compared to full year 2023, our ETF net inflows more than tripled.

In 2024, strong equity markets drove our average AUM higher, increasing our investment advisory fees, net revenues, and diluted EPS over the prior year.

Our Q4 adjusted net revenue of \$1.8 billion increased our full year adjusted revenue to nearly \$7.2 billion, up 10.1% from 2023.

Our Q4 investment advisory revenue of \$1.7 billion increased 2.5% from the prior quarter and 16% from Q4 2023, driven by higher average AUM partially offset by a decline in effective fee rate. Our full year 2024 investment advisory revenues of \$6.4 billion were up 12.1% from the prior year.

Our Q4 annualized effective fee rate, excluding performance-based fees, was 40.5 bps. This decrease from Q4 of last year was driven by a mix shift in assets. A large portion of gross sales were in strategies and vehicles that have lower than average fee rates while a significant portion of redemptions were in assets classes and vehicles that have higher than average fee rates.

2024 investment advisory-related performance-based fees of \$59.3 million, which we now present separately in the income statement, were \$21 million higher than the prior year. These represent realized in-year performance fees from alternatives and equity products.

Full year accrued carried interest income of \$134.1 million was down year-over-year due to lower returns in 2024 versus 2023, reducing the accrual during the year.

Q4 adjusted operating expenses were \$1.2 billion, bringing full year adjusted operating expenses, excluding the carried interest expense, to \$4.46 billion, which is up 6.3% from 2023's \$4.19 billion, and within the previously provided 2024 guidance of 6-8%.

Considering average market conditions, we anticipate 2025 adjusted operating expenses, excluding carried interest expense, will be up 4% to 6% over 2024's \$4.46 billion. This includes continued expense management to allow us to invest in our strategic priorities to support growth and the impact of real estate costs in 2025 as we move into our new headquarters in Baltimore.

With regard to capital management, we remain committed to returning capital to our stockholders and to maintaining a strong financial position.

During the fourth quarter, we bought back \$71 million worth of shares, bringing our full-year buybacks to \$355 million, and have continued to buy back shares during the start of 2025. Our balance sheet remains strong, ending the year with \$3.1 billion of cash and discretionary investments.

We continue to manage our business with a long-term perspective, carefully aligning our expenses with the market-driven nature of our revenues. From this position, we can preserve our ability to deliver new capabilities for clients and invest in growth areas of the market.

And with that, I'll turn it over to Eric.

Eric Veiel: Thanks Jen.

For the second year in a row, we saw strong gains in most equity markets, particularly in the U.S. where technology stocks continued to drive returns. Fixed income markets were more muted for the year and were characterized by a significant interest rate volatility, with short rates falling and the long-end of the curve rising.

Equity market performance in 2024 saw similar themes to 2023, as large technology stocks continued to lead on the back of the growing impact of artificial intelligence, strong earnings momentum, and expanding

valuation. The extreme narrowness in markets continued in 2024 as eight stocks drove 60% of the S&P 500's return. Our research also showed a significantly high level of factor volatility during the year within equity markets despite the overall level of equity market volatility, as measured by the VIX, remaining low. This type of market environment makes it more difficult for our strategies to outperform, given our disciplined focus on fundamentals and valuation and our emphasis on the long-term.

Across asset classes, 54% of our funds beat their peer group medians for the year, and on an asset weighted basis, 61% beat their peer groups.

In our equity franchise, despite mixed performance overall, I am encouraged by the evidence that our research process and teams remain very strong. Our flagship U.S. Equity Research Strategy delivered another year of top-quartile performance and outperformed the S&P 500 by 140 basis points net of fees. A number of our sector products also delivered strong performance—with Science and Technology, Communications and Technology, New Era, Financial Services, and Global Technology all top quartile performers for the year. These strong underlying strategy results translated into top-quartile performance across a number of key diversified strategies, including Mid-Cap Value, Blue Chip Growth, and Diversified Mid-Cap Growth. However, results were below our high expectations in a number of strategies, including Mid-Cap Growth, New Horizons, Dividend Growth, and Emerging Markets Equity. Our teams remain highly focused on improving performance in these, and all of our strategies.

I will also take the opportunity to highlight that for the 17th consecutive year, one of our flagship funds managed by David Giroux beat its Morningstar peer group. This is the longest streak of outperformance versus its Morningstar peers among any U.S. equity or multi-asset fund under the same portfolio manager.

This is not the only example of performance consistency. It is evident in a number of our products and across asset classes. In addition to Capital Appreciation managed by Giroux, U.S. Equity Research, Mid-Cap Value, Institutional Floating Rate, Maryland Tax Free Bond, and the 2015 and 2020 vintages of our Retirement funds all delivered top decile performance for the 3-, 5-, and 10- year time periods.

Our broad target date franchise continued to deliver strong performance over multiple time periods. On an asset weighted basis, 73% of our target date assets beat their peer group medians for both the 1- and 3- year time periods, and over 90% were top quartile for the 5-, 10-, and 15- year time periods.

In our Fixed Income Division, a number of our muni-strategies, as well as our Short Duration Income, Institutional Floating Rate, and Global High-Income products, had top quartile 1-year performance. Conversely, our High Yield and International Bond products had a more challenging year with performance lagging peers and benchmarks. And in our ETFs, three of our fixed income ETFs—Ultra Short-Term Bond, U.S. High Yield, and Floating Rate—all had top quartile 1-year performance, while the other two fixed income ETFs with one year performance beat their peer medians.

Returns across alternative strategies were generally positive in the fourth quarter. Structured credit generated the strongest returns, while liquid strategies tracked the overall market backdrop. Private market strategies experienced greater dispersion with private credit performing ahead of special situations and distressed strategies.

I've shared a few highlights related to investment performance. Now I'll turn now to several important initiatives we advanced in 2024.

Last year brought exciting growth in our ETF business. We started the year with \$2.5 billion in AUM and, as Rob mentioned, we closed the year with just under \$8 billion in AUM. In the fourth quarter, we filed to launch

the Capital Appreciation Premium Income ETF, which will be managed by David Giroux and his team, and the Hedged Equity ETF, which will be managed by our Multi-Asset team, and we expect to bring these to market this Spring. We are considering additional strategies to offer clients in this tax efficient wrapper and expect further launches throughout 2025 and 2026.

As the largest provider of active target date products and an industry leader in retirement, we are always focused on anticipating evolving client needs and expanding our offerings to meet them. In 2024, we extended the target date range to include Personalized Retirement Manager, or PRM, as well as a Managed Lifetime Income product:

- PRM is a service that uses personal data to create a unique asset allocation tailored to an individual's specific saving goals, preferences, and financial situation to help drive better retirement outcomes.
- Our Managed Lifetime Income product combines a managed payout product with a qualifying longevity and annuity contract, or QLAC, from Pacific Life, to offer retirees stable and predictable monthly income for life.

We are also seeing continued success with our blend products, which we designed to meet the needs of price-sensitive clients who are interested in our target date expertise.

Looking forward, we are exploring how alternatives could be used in our target date products if or when regulatory hurdles come down and client demand materializes.

We have been managing integrated equity strategies for nearly two decades—combining fundamental and quantitative processes with our deep portfolio construction expertise. Our 12-person integrated equity team manages about \$12 billion across a range of integrated equity products, including U.S. small-, mid-, and large- cap and global and international equity. In 2024, we added an equity solutions portfolio manager who works closely with our clients to deliver customized solutions. We closed the year with over \$1 billion in equity solutions AUM and several other opportunities advancing in the pipeline.

Another way we've looked to deliver alpha for our clients has been through allocations to late stage, pre-IPO private companies in our US 40-act mutual funds and other pooled products, which we've been doing since 2007. As one of the most active, prominent managers of small- and mid-cap equities, we've built a network of established relationships that put our team at the forefront of emerging investment opportunities. Our private equity capability can draw on the expertise of over 230 global research analysts immersed in their industries and regions. At year end, over 25 of our investment strategies were invested in privates. We are now exploring new ways to move beyond the 40-act fund structure to offer this capability to more clients in a dedicated product.

Our U.S. Equity Research Strategy, with over 25 T. Rowe Price Associates' analysts contributing to the portfolio in their focus area of expertise, demonstrates the strength of our research platform across the breadth of the market and our pipeline of investment talent. Clients are responding to our rules-based portfolio construction and risk management that isolates our analysts' stock selection skill as the alpha driver. In addition to the consistent long term performance I mentioned previously, we saw strong gross sales to this strategy in 2024.

We have broadened the equity research franchise with International and Global Equity research strategies, which mirror the time-tested approach of our US Equity strategy. These newer strategies hit their 3-year track records in September 2024. In addition, we are developing a small- and mid- cap structured research capability within our T. Rowe Price Investment Management advisor that we plan to seed this year.

We formed the T. Rowe Price Investment Institute with the overarching mission of creating a center of excellence, within Investments, that focuses on our clients and our investors. Led by Justin Thomson, the Institute will enhance our offer to clients—beyond investment performance.

Through differentiated thought leadership, client training, and other value-added experiences for clients that showcase our investment and research capabilities, we will assist with their investment decision-making and ultimately help drive enhanced commercial outcomes for us.

The Institute will also help to support our global investment team—the heart of our investment capability—with wide-ranging investment skills training, from analyst best practices to portfolio construction.

With Justin's new role, we took the opportunity to review our Equity organization and have combined our U.S. Equity and International Equity Divisions into one Global Equity Division. This allows us to build on our strengths to ensure we maximize our investment performance; attract, develop, and retain the highest caliber of talent; maximize our efficiency; and optimize our commercial success. Josh Nelson has assumed the role of head of Global Equity.

2024 was Arif Husain's first year as head of Global Fixed Income, and momentum is building across the franchise. On an asset weighted basis, 65% of our fixed income assets outperformed their peer groups in 2024. And we had \$12.6 billion in positive net flows to fixed income, bringing our fixed income AUM to \$188 billion at the end of the year.

We have made a concerted and fruitful push into the insurance sector, and fixed income is the main asset class of interest for these clients. It is this insurance channel that drove much of the strong fixed income flows in Q2 and Q4 of 2024.

Our fixed income team is also upgrading the tools our investors use and working with our distribution teams to ensure we have the sales and support staff to further enable our fixed income growth.

We have been building capabilities in data science, machine learning, and predictive models since 2017. Our approach has always been one of intelligent augmentation, enabling our investors with additional data points to aid their decision-making and to unlock productivity gains. We now have 280 investors using our AI tool, Investor Copilot—a custom chatbot embedded within the private environment of our research platforms—to summarize proprietary research and surface insights. We believe generative AI technology is still nascent in its capabilities to add material lift to common tasks in investment research but that there is potential to add material business value as the technology and our use cases mature.

I'm pleased with the progress we made in 2024—and that we made this progress while staying firmly rooted in our three pillars of people, process, and culture. We remain singularly focused on pursuing investment excellence for our clients, and I'm confident we have the right team and resources in place.

With that, I'd like to ask the operator to open the line for questions.

Questions and Answers

Operator: (Operator Instructions) Our first question comes from Bill Katz with TD Cowen.

Bill Katz: Appreciate the extra disclosure and color this quarter. Just coming maybe where you ended the conversation, a couple of days ago, you announced a venture with Ares and Aspida. I was just sort of wondering if you could tie together a couple of points associated with that. First, just how do you think about the opportunity set in insurance and maybe talk through how many other platforms you might be working with? Secondly, you mentioned in your prepared comments that you sort of tweak it around on alts into retirement. I'm wondering if this relationship would be portending anything along the way? Then third, I'm sorry if I missed the question - how do you think about M&A here to continue to expand your product set in a world where public and private investment seems to be converging?

Robert Sharps: Yes. Thank you for the question. I'll start with Aspida and then maybe talk about insurance more broadly and then hand it over to Eric to give some perspective on how we're approaching the potential for alternatives and defined contribution. With regard to Aspida, I'd say we're really excited to partner with the Aspida team and with Ares. As you said, we just announced this. So, while we're really just getting started, as we engage with those teams, we identified a number of areas that we could work together both on T. Rowe Price's fixed income platform and with OHA. I would say importantly, working with the Aspida will allow us to refine our insurance asset management offering, particularly in the life and annuity space, which should create additional opportunity with other insurers.

In time we've also discussed evaluating codeveloping some investment offerings with Aspida and potentially with Ares. We should see some direct benefit from this year and expect that it will build over time. If we do a nice job for Aspida and their book grows, I think there's a tremendous amount of potential here.

With regard to insurance broadly, it's an important area for us and one that we've been focused on for a number of years, where I'd say we really started to build momentum in 2024, even before announcing the partnership with Aspida. We had improved organic growth in fixed income and a substantial amount of that was driven by some additional commitments from existing insurance clients.

We also are engaged with a number of potential insurance clients. The arrangement with Aspida isn't exclusive. But again, it's one that we're really, really excited about. In terms of how we evaluate opportunities from either a strategic investment or an M&A perspective, I think it's the same framework that we use across the board. We have a strong balance sheet, and we have capacity to make strategic investments or do M&A to the extent that it brings us additional capability or allows us to access a broader range of clients.

I think we're mostly interested in doing that in areas where we don't have the potential to build the capability organic or leverage our existing investment capabilities. I think we're also interested in kind of any opportunity to reach a broader range of clients. So, we evaluate those one by one. It's an area where there's been a fair bit of activity. While I can't say that there's anything specific that we're working on right now, I wouldn't be surprised to see additional developments in this area over the course of coming quarters or coming years.

Eric Veiel: Bill, in relation to your question around alts into retirement more broadly, obviously defined contribution is a critical part of our business. It's a very large part of our business. So, we've been focused on this for some time. We're fully in favor of anything that leads to better client outcomes. Our research is going deep into what asset classes like private credit could do to improve the risk-return equation for

different participants within that channel. We have been engaging with clients and consultants and our investment team on this.

Obviously to date, a lot of the activity has been more on the custom side. But we think it's increasingly likely that there'll be an opportunity to broaden that discussion out into more standard offerings, but there's a lot of work to do. We still have hurdles, fee budgets, liquidity, daily pricing, but it's our belief that over time client interest is likely to grow in this area. We think it's an important part of the value proposition for active managers, and we're excited about what we can do over time there.

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

Benjamin Budish: I wanted to ask a question about, Jen, your comments on sort of the fee rate dynamics in the quarter. You mentioned that a large portion of sales were in strategies with lower-than-average rates and a portion of redemptions were in asset classes with higher-than-average fee rates. So just curious, what did the sort of exit fee rate look like coming out of the quarter? What are you seeing in January? And how should we think about those sort of dynamics into 2025?

Jen Dardis: Sure, Ben. So I think starting out to say we have seen higher fee compression this year than on average. In the past, we've talked about an average level of about 1% to 1.5% per year. I mean it's fairly persistent within the industry as we see scale players being able to command lower fee rates and just the higher competitive level of fees in the industry. This year was about 2%. And I would say -- the first thing that I would highlight is it's the same trends that hit our flows over the past two years that have also influenced the effective fee rate.

So if you think about the places where we've seen elevated net outflows, it's primarily been in equity products. These tend to have higher fee rates on average. It's also important to consider as you think about the direction of travel, that it's not really just the net flow. It's about sales versus redemptions. So we've seen elevated redemptions in mutual funds that also tend to have higher average fee rates and sales have come in lower fee vehicles, such as common trust, ETFs, and institutional separate accounts, which on average tend to be lower effective fee rates.

And I'd say finally, we see the impact of some of our strategic choices. These are places where we're attempting to grow in the marketplace and where we've seen good success that were highlighted by Rob and I in comments. Some of that is success in our target date blend product, some large wins in fixed income insurance and some places where we've used pricing levers to scale new products as we grow in new markets. Then in certain cases, although this has tended to be a smaller portion of what we do, we have done some selective repricing to position more competitively in places where we think we have a good value proposition for clients and the right to win.

I'd just end by saying that while much of this is persistent, there are some trends that should help to offset this over time. And that's largely that equity redemptions have eased significantly in the back half of the year, and we would expect that trend to continue. The alternative products that we offer also tend to be higher fee, which offsets a portion of that as that grows as a portion of the book.

Robert Sharps: Yes. I'll add a little bit of color, Ben, on this topic. First, we don't manage to a specific fee rate. We've been navigating fee pressure for quite some time. This is an intensely competitive business and a number of our competitors are really focused on being a low-cost provider. We expect fees to continue to

come down in a manageable way over time. My view is that lower fees are good for clients and that they enhance our value proposition.

I think to an extent, there is a toggle or a trade-off between fees and flows. As Jen said, we've got a number of strategies that are specifically oriented towards clients with either lower risk or fee budgets including, Eric mentioned in his prepared remarks, our suite of equity research offerings. We also have a full suite of integrated equity offerings that leverage our fundamental insight and our quantitative capabilities blended hybrid in the retirement date suite, QM bond.

We've got a number of offerings that we'd like to grow where the fee is lower than our blended fee rate, but where we think the economics are still attractive for us and where the value proposition is really compelling and can stand up both to active and to passive competition.

Finally, as Jen referenced, we see big opportunities in areas like insurance, where if you think about buy and maintain liquid public for a general account, that's pretty low fee business, but there's also opportunity in plus sectors like emerging market bond or in alternatives where the fee rates are more compelling.

So I think there are going to be give and takes, but I think we forecast that while the fee rate will continue to come down, it will come down at a very manageable pace. And kind of ultimately, with some of these lower fee strategies, it will kind of quicken our ability to get back to positive net flow.

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

Glenn Schorr: So I have a question that kind of spans across OHA, Aspida and your insurance comments. It's more of what you're seeing for -- in terms of client demand or the potential for hybrid products across public and private, particularly in fixed income. What really peaked my interest is, in your prepared remarks, you talked about doing both public and private for Aspida. So I don't know if you could comment on, is that a set allocation? Or do you manage actively across public and private for them? So big picture of more hybrid potential and managing actively across public and private?

Robert Sharps: Glenn, at a high level, there's been a lot of discussion with regard to convergence of public and private markets. I think in certain structures, more traditional GP/LP, you've had firms like OHA that have offered multi-strategy credit offerings for an extended period of time. If you look at some of their flagship funds, they basically have the ability to invest in credit kind of across liquid public and private, high-yield bonds, loans and private credit.

So, OHA has got a demonstrated capability in doing that over an extended period of time. I think what's newer is that there are offerings now in the wealth channel through interval funds or BDCs that cut across public and private in credit. And I think people are evaluating opportunities to do something similar in equity over time. We've engaged not only with OHA, but with some other some other alternative asset management firms to discuss opportunities with regard to kind of bringing a combined liquid public and private offering to the marketplace.

I would say nothing that I would characterize as particularly advanced right now. But I think eventually, if you think about some of the areas that Eric referenced need to be solved for in terms of fee budgets, liquidity that may be part of the solution and the opportunity eventually to bring alternatives to the defined contribution marketplace.

Specifically, as it relates to Aspida, we basically have talked about areas where we really think we can add value to their portfolio and their underlying returns and have agreed on areas that will work together. There aren't any specifically identified kind of targets or allocations, but there are several areas where we have capabilities, expertise and a strong track record that they believe would be additive.

Ultimately, we'll get the opportunity to prove that out. I think that's true both with regard to T. Rowe Price fixed income capabilities, but also across the spectrum of what OHA does from private credit to many of their structured offerings. So I think there's a big opportunity there for us to work with them on both sides.

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

Craig Siegenthaler: Just following up on Glenn's question, but I really wanted to focus on the 401(k) channel, so not insurance with Aspida. But is T. Rowe Price planning to make 100% of future private equity or private credit allocations to retirement products from internal capabilities, including leveraging OHA? And could this trigger future strategic M&A in white spaces? Or will T.Rowe look to form partnerships with third parties, which could include an Ares?

Robert Sharps: I'll start. We want to offer best-in-class investment solutions. I mean we are a leader in retirement. We're a leader in retirement solutions, whether that's our suite of retirement date funds or retirement income. We have tremendous confidence in our own capabilities, including OHA. But in certain areas, we're open to or may even need to partner with other managers who have a demonstrated capability in areas where we don't. So we're open to it. Kind of ultimately, whether that takes the form of partnerships, or takes the form of M&A, I would say is to be determined.

Eric Veiel: There are still also obvious liquidity and regulatory issues with offering different types of private investments in that environment, Craig. So while we're looking at this over time and within different vehicles, we're not in a position where this just happens automatically.

Robert Sharps: Yes. I mean as Eric said earlier, most of the activity to date has been kind of more in custom retirement date. We do think in time with potential for safe harbor and client interest and research that shows an enhanced risk return profile for defined contribution participants that there may be an opportunity to broaden that to either retirement date funds or retirement income offerings. But that could also be quite some way off.

We want to be prepared, we want to be open to anything that really helps us deliver a best-in-class investment solution. But this is, I think very, very early days and an area that is likely to come to fruition. But kind of in terms of really going to market or impacting our underlying business, it could be years off.

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

Daniel Fannon: Wanted to expand upon your comments around gross sales trends. Rob, you were quite optimistic around the improvement you're seeing. Could you give a little more context around maybe the backlog and particularly maybe in the Target Date side of the business and maybe on the institutional side, where you have a little bit more line of sight and any granularity or context versus prior periods would be helpful?

Robert Sharps: Yes. Dan, thank you. Look, we saw improved gross sales across almost all distribution channels and geographies. In fact, it was our best gross sales year since 2021, which was elevated, as

you'll recall by pretty abulent markets during the pandemic. Overall, '24 was a significant improvement over '22 and '23, but we're still not where we need to be.

Importantly, we saw less pressure on redemptions in equities, particularly large cap growth, where we've had strong absolute and improving relative performance. We had our third best year ever in retirement date funds with \$16 billion in net inflows. As I said, we grew in fixed income including some notable insurance wins. We grew in alternatives, and we saw an inflection point in our ETF business.

I'd also say that we closed out '24 with really strong momentum, right? I mean despite the large sub-advisory redemption that we talked about on the third quarter call that basically came through in December, we funded a number of new mandates in December, which served to partially offset that.

So for '25, we really feel like we're in a position to build on this momentum. The year is off to a good start, and our net pipeline ended the year stronger than a year ago. Reflecting, I'd say both new opportunities across channels, and you asked specifically about retirement date funds, we feel very good about our pipeline and our opportunity set there. And look, the net pipeline is also helped by less at risk with fewer mandates at risk, primarily in equities.

So look, our base case is that in '25, we further reduced net outflows and set the stage to return to organic growth. I know there's a tremendous amount of interest in our perspective on when we believe we'll get back to net inflow. It's just really difficult to say. It depends on a handful of things that are in our control, right? Do we deliver great investment performance? Are we successful with our go-to-market and strategic initiatives in wealth, retirement, alternatives, insurance and outside the U.S. But it also depends on some things that are less in our control or outside of our control.

If you think about the market backdrop, last year was certainly much better than the environment that we faced in '22 and '23 in terms of investor appetite for risk assets. But it's been an extraordinarily challenging environment in terms of the return profile of the market for active management. It has been really, really difficult to generate alpha where the cap-weighted benchmarks have continued to deliver strong returns dominated by the largest positions in those benchmarks. It's also taken interest away from a lot of things that we've historically done really well.

While it's benefited our large-cap growth suite, it basically has meant that there's been little to no interest in areas like small and mid-cap. There's been little to no interest in areas like non-U.S., emerging markets, international and global. So look, I think to the extent that we're in a more constructive environment for alpha generation, you have a broader opportunity set where there's investor interest. We're confident that we'll find our way back to net inflows. It's just really, really hard to say when that will be.

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

Patrick Davitt: You've mentioned the offsetting wins in December a few times. Would it be possible to dig in a little bit more on the color of those wins and possibly frame the scale of those wins as we think about the repeatability of things like that?

Jen Dardis: Sure. Thanks for the question. I'd say the good news of this was that it was across asset classes. So, we saw some in equities, some in multi-asset -- which was the first positive flow of quarters in the Target Date franchise since 2019, so we were pleased to see some of the growth there, and we also saw inflows in fixed income. It was fairly broad-based in terms of where we saw those flows. We had some stats

-- we don't typically share these, but I think there were 10 or 11 that were above \$200 million that came in, in December alone. So again, it was a nice set of wins that we saw that came in across the board.

Robert Sharps: Yes. It was really broad. I mean it was across strategies in equities and across channels. So large cap growth in wealth, structured research or U.S. equity research strategy in institutional, fixed income win in insurance, a big retirement date fund win that funded. So we obviously as disappointed as we were to lose the sizable client mandate that redeemed in November and December, we were pleased to, for the month of December, to be able to partially offset that and close the year out with some pretty nice momentum.

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

Kenneth Worthington: Equity outflows have been elevated in recent years. Performance was an issue. Is improving performance enough to turn the tide and move your equity franchise back to positive sales? Or do you really need more at this point given how the market, the ecosystem has sort of evolved? And so when we think about the innovation that you're pursuing, product structure, distribution, what do you see as most likely to drive improved equity sales of the initiatives that you have underway? And ultimately, what are you most excited about in terms of what could move the needle?

Eric Veiel: Ken, this is Eric. I'll take that first. We view performance as clearly and necessary but not solely sufficient circumstance to drive flows in the equity business and frankly, across all of our asset classes. But taking equity specifically, it's obviously critical to have that performance and to be able to deliver it. But increasingly, we have to meet clients where they want to be from a vehicle perspective, from a price perspective, and from a risk appetite perspective. I would say included in that vehicle perspective is increasingly an emphasis, especially in the U.S. on tax efficiency. That drives you towards having more vehicles like our ETF franchise, like our retail separately managed account franchise on platforms and available to the clients in ways that historically we've been growing, and that's important, but it will take time to fully get on those platforms to have the right arrangements in place to do it.

So I feel really good about where we are from an underlying performance perspective, as I talked about, and I'm increasingly confident that we're building the right set of products to deliver the performance to clients and the packages that they want across our equity franchise. But as you see from the data every day, the overall active equity market is in outflows for everybody, not just for us. So that's the headwind that we're facing.

Robert Sharps: Importantly, I would say Ken, in areas where our performance is strong, we have a number of strategies that have been in net inflow over multiple-year time horizon. So performance is very important. I think the research that we've done suggested 3- and 5-year performance is most influential on flows, it varies across channels. There are certain channels that are more sensitive to the 1- and 3, but kind of in many really important channels defined contribution investment only, home office from a wealth perspective, institutional, the 3- and 5-year numbers are really important.

I think for us, we obviously want to deliver great investment performance every year, but this is an important year because we roll off '22, which was a poor year for us in the 3-year number. So I think we're on the path to delivering better performance. But in areas like the equity research strategy, global focus growth, capital appreciation, all cap opportunities where kind of we've had good performance, we continue to have good flows.

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

Brennan Hawken: I was curious to touch on the expense outlook. So thanks for providing that. I know that sometimes you provide the expense outlook as of -- not necessarily as of the first day of the quarter, but intra-quarter. So is that the case? And could you let us know what date that is and what's your market assumptions? And also, you flagged real estate costs -- I'm guessing that's the HQ move. Can you give a sense of magnitude there? And is that just going to be a 2025 event?

Jen Dardis: Sure. Thanks for the question. In terms of our market assumptions, we essentially looked at an average for the final quarter of the year, which was fairly similar to where the year ended from AUM perspective. So we have some carryover impact of the rising average AUM through the year 2024 on to 2025 variable expenses.

In terms of market expectations for 2025, we use our standard assumption which is a blend in an average return on equity markets and fixed income that aligns to our mix of business. Specifically with regard to real estate, yes, that is the new move to headquarters. In Baltimore, I'd say depending on timing, that's somewhere between \$20 million and \$30 million of impact. Part of that is onetime of double rent as we move from one building to the other. The rest is sort of a one time step up given the additional capacity in the space, in the new location.

What I would highlight there is, though it's not a this year impact, we continue to look at excess capacity in our real estate portfolio. So we'll look at opportunities over time to see how we might be able to bring expenses down in other spaces with the addition of this new space downtown.

Operator: And our final question comes from Alexander Blostein with Goldman Sachs.

Alexander Blostein: I wanted to ask about a medium-term target or medium-term thought around the expense management for the business. Very encouraging to obviously hear the flow commentary for 2025. That said, we all know that the fee rates matter more than the flows, right? So when you kind of think about the areas where you guys are seeing traction, those tend to be a lower fee rate than the back book.

So with that in mind, as you think about expenses and call it a third, I think, has been historically relatively tied to the market or revenue levels, the other two-thirds used to grow probably in the mid-single-digit range, maybe a little below that. Is there room to bend that kind of non-variable part of the expense base to be more aligned with the organic revenue growth? And what would that look like?

Robert Sharps: Maybe I'll just start at a very high level and then turn to Jen to talk a little more in specifics. I think Alex, the question is spot on in the sense that if fees are going to be under slightly more pressure than they've been in the past, then I think you need to think differently about our controllable expense growth rate.

I do think that there is opportunity for us to do some things that are more structural that can bring that down. I think those things take time to do right. But we're evaluating a number of things that kind of can be helpful in the 2026 and beyond timeframe. Some of those things require some upfront investment, so it's a bit of the spend to save. We've got a little bit of that expense in the forecast for '25 but not a lot of it because a lot of that work is relatively early stage. But the arithmetic that you laid out holds. I mean, if ultimately, your revenue growth is going to be slightly adversely impacted by more pressure on fees -- if you want to invest in your business, you've got to self-fund more of that investment, and you've got to leverage your scale and drive towards efficiency. So we'll work really hard on trying to figure out what we can do. That said, this is a

talent business. We need to take care of our talent. We do want to invest in capabilities as we see them paying off.

If you think about the growth that -- we're really beginning to see accelerate with OHA. If you think about some of the opportunities that we're seeking in retirement outside of the United States. If you think about continuing to penetrate the opportunity that we have in U.S. wealth and broadened our coverage in specialty sales in areas like ETF and alternatives, a lot of those require additional hires and additional capabilities.

So I'd say there is scope for some structural cost savings, but at the same time, we don't want to save our way to prosperity. We want to invest in the business and get the business into a place where, in time, we're delivering more regular growth.

Jen Dardis: Yes. You've covered it well but maybe just a couple of specific comments. As we've gone through our planning processes, what we've tried to do is step back from episodic reductions because those tend to be less specific if you're reacting to market conditions, and look more structurally over multiple years, how can you start to lay these projects in so that you can have more sustainable and repeatable savings that you can bank on. Because when you're looking at processes, these things don't happen very quickly, they tend to happen over a period of years.

As Rob mentioned, you might have to spend upfront to be able to take savings out over time. So as we look at how we want to spend for new capabilities that Rob mentioned, we've been targeting, I'd say over the past year or two, trying to come up with 2% to 3% of savings a year on a structural basis to be able to fund some of those new initiatives.

Operator: Thank you. This concludes our question and answer session and today's conference call. Thank you for participating. You may now disconnect.