



**T. Rowe Price Group Inc. (Q3 2023)**

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**Corporate Speakers:**

- Linsley Carruth; T. Rowe Price Group Inc.; Director of Investor Relations
- Robert Sharps; T. Rowe Price Group Inc.; Chief Executive Officer and President
- Jen Dardis; T. Rowe Price Group Inc.; Chief Financial Officer
- Eric Veiel; T. Rowe Price Group Inc.; Head of Global Equity

**Participants:**

- Alexander Blostein; Goldman Sachs; Managing Director, Senior Strategist
- Craig Siegenthaler; Bank of America; Analyst
- Patrick Davitt; Autonomous Research; Partner
- Brian Bedell; Deutsche Bank; Director
- Kenneth Worthington; JPMorgan; Financial Analyst
- Brennan Hawken; UBS; Analyst
- Michael Cyprys; Morgan Stanley; Managing Director
- Glenn Schorr; Evercore ISI; Senior Managing Director, Senior Research Analyst
- Daniel Fannon; Jefferies; Managing Director, Research Analyst
- Finian O'Shea; Wells Fargo Securities; Director, WFS Research

**PRESENTATION**

Operator: Good morning. (Operator Instructions) Welcome to T. Rowe Price's Third Quarter 2023 Earnings Conference Call. (Operator Instructions) 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. Please go ahead.

Linsley Carruth: Hello. And thank you for joining us today for our third quarter earnings call. The press release and supplemental materials document can be found on our IR website at [investors.troweprice.com](https://investors.troweprice.com). Today's call will last approximately 45 minutes. Our CEO and President, Rob Sharps and CFO, Jen Dardis, will discuss the company's results for about 15 minutes, and then we'll open it up to your questions.

We ask that you limit it to one question per participant. We also have Eric Veiel, T. Rowe Price Associates Head of Global Equity here with Rob and Jen today for the question-and-answers portion of the call.

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. Now I'll turn it over to Rob.

Robert Sharps: Thank you, Linsley, and thanks to all of you for joining us today. Third quarter trends were largely similar to what we experienced earlier in the year. Relative investment performance was solid and particularly strong in our largest franchises. We made progress on our strategic initiatives and we executed on planned cost savings efforts. At the same time, we haven't seen any improvement in net flows and don't expect to for the balance of the year.

That said, we do expect flow trends to recover somewhat in 2024 as improved performance takes the pressure off of redemptions from U.S. large cap equity products, investors come off the sidelines, and we realize the impact of our strategic investments.

Turning now to investment performance. As you know, most equity and fixed income markets fell in the third quarter as investors grew increasingly concerned about a prolonged period of higher interest rates. During these choppy markets, we posted another quarter of solid investment performance relative to peers, particularly in many of our U.S. equity and multi-asset strategies.

Our U.S. equity products were resilient with more than 70% of the mutual funds outperforming their peer group medians. All three of our large-cap growth products were above the median and beat their benchmarks in the quarter and each have top quartile performance for the year-to-date time period.

Other strong performers in our U.S. equity range included All Cap opportunities, U.S. Large Cap Core, and Science and Technology, which all had top quartile performance versus peers for the quarter, adding to their solid multiyear track records.

International equity products continued to have solid long-term relative peer results despite losing some ground during the quarter.

We launched five new active ETFs in June and our four active U.S. equity ETFs got off to a strong start with all beating their benchmarks in the first full quarter since launching.

Our Capital Appreciation fund continues to deliver consistent outperformance relative to peers and is in the top decile versus peers in the 1-, 3-, 5- and 10-year time periods.

Our target date products added another strong quarter, largely driven by our active security selection and differentiated portfolio construction. All vintages of the flagship retirement funds were in the top quartile versus peers, adding to their strong long-term track record.



Fixed income performance was solid with over 60% of our mutual funds outperforming their peer group meetings. Topping the list were our Dynamic Credit Bond fund, which was recently added to our target date building blocks and the Global High Income Bond Fund, both of which were top decile performers in the quarter.

Alternative strategies generated solid absolute and relative performance during the quarter with strong results in private market strategies. OHA liquid credit strategies outperformed their benchmarks as well.

While I'm encouraged by improvements in our investment performance, as I mentioned at the outset, we continue to see net outflows. Third quarter flows and negative \$17.4 billion were largely consistent with recent levels. The asset class trends remain the same, with U.S. large cap equity accounting for a majority of the net outflows.

Looking ahead, we expect fourth quarter flows to be worse than recent trends with further weakness concentrated in November and December. Our forecast considers that December has been particularly weak over the last few years, and reflects notified terminations and redemptions, including those related to a handful of large sub-advisory mandates.

We continue to proactively manage expenses to create a cost structure appropriate for the size and scale of the firm today and to allow for continued investment in our strategic priorities. Jen will talk more about these expense efforts in a moment. But first, I'd like to highlight a few of our accomplishments during the quarter.

We launched our first joint investment offering with OHA, the T. Rowe Price OHA select to Private Credit Fund, offered as a non-traded perpetual life business development company or BDC structure. We are focused on building a durable and repeatable process to deliver alternative investments to the wealth management channel. OCREDIT launched with \$1.5 billion of investable capital, making it one of the industry's largest nontraded BDC launches.

This includes over \$600 million raised in equity commitments from T. Rowe Price in a group of global institutional investors in addition to \$875 million in credit facility commitments.

Our ETF franchise is expanding with AUM totaling \$1.7 billion as of September 30. Our new capital appreciation equity, ETF, or TCAP has attracted strong interest since launching in June with over \$190 million in net flows and placement with 12 broker-dealer clients.

In the third quarter, associates in London moved to our new office in Warwick Court on Paternoster Square, and we marked the end of exterior construction of our new global



headquarters at Harbor Point in Baltimore, Maryland, with a ceremonial beam signing. Both offices are an investment in the associate experience and have been designed to foster collaboration, a cornerstone of our culture. It's our culture and the dedication and hard work of our associates that are driving our progress on our path to return the firm to organic growth.

We have some of the best talent in the industry, and we're squarely focused on delivering consistently strong long-term investment performance and world-class service for our clients, sustaining our culture of excellence and collaboration and carefully managing our financial results through this environment. I'm grateful to our teams for keeping our clients at the center of all we do. I'll now turn to Jen to cover our financial results for the quarter.

Jen Dardis<sup>^</sup>: Thank you, Rob, and hello, everyone. I'll review our financial results, and then we will open the line for questions. Our adjusted earnings per share of \$2.17 for Q3 2023, was up from \$2.02 in Q2 2023, driven by higher investment advisory revenues and higher carried interest-related income.

A decline in markets following a peak at the end of July, led to Q3 end-of-period AUM of \$1.35 trillion, down 3.8% from Q2. But our Q3 average AUM of \$1.4 trillion was 2.7% higher than Q2 and 3.4% higher than Q3 2022, driving the higher investment advisory revenues this quarter.

As Rob mentioned, we had \$17.4 billion in net outflows for the quarter, including a previously disclosed sub-advisory mandate termination in August. Consistent with last quarter, our three U.S. large-cap growth equity strategies drove the majority of the net outflows. Outflows from equity products were partially offset with inflows in our multi-asset fixed income and alternative asset classes, and our Asia Pacific business posted positive flows for the quarter as well.

Within multi-asset, target date net inflows were \$2.9 billion for the quarter, bringing year-to-date inflows to \$12.8 billion. When thinking about the rest of the year, keep in mind, we historically have seen some plan-driven seasonality in the DC channel with some plans departing in December and new ones onboarding in January.

Other highlights from the quarter included net inflows into Capital Appreciation, All Cap Opportunities equity, International Core equity and Blended Emerging Market bond.

In September, we reopened our International Small-Cap equity and our High-Yield bond strategies to new clients, which we expect will support future sales. Both strategies have solid long-term performance track records.

Turning to the income statement, Q3 adjusted net revenues were nearly \$1.7 billion, including over \$1.4 billion in investment advisory revenue.



Our annualized effective fee rate was 41.7 basis points in Q3 2023, down from 42.3% in Q2. The effective fee rate decrease is primarily driven by the timing of performance-based fee earnings on certain equity and alternatives products that were realized in Q2, along with mix shift towards lower fee asset classes and vehicles.

Q3 adjusted net revenues also included over \$90 million in accrued carried interest related revenue, reflecting strong absolute and relative performance in those alternative products with carried interest paying structures. This was a higher level of carried interest-related revenue than previous quarters, and this will likely continue to vary widely quarter-to-quarter, in line with absolute and relative returns in the products.

Our adjusted operating expenses were nearly \$1.1 billion, up a little over 3% from both Q2 2023 and Q3 2022. Q3 included severance costs related to our July reduction in force and higher carried interest-related expense, partially offset by a nonrecurring benefit in G&A.

For full year 2023, we are narrowing our guidance range for adjusted operating expense, excluding the carried interest related compensation to be 2% to 4% over the comparable full year 2022 amount of nearly \$4.1 billion. With adjusted operating expense growth, excluding carried interest compensation of just under 1% year-to-date, we do expect higher expenses in a few categories in Q4, several of which are seasonal or timing related so will not fully carry forward into 2024.

Specifically, we expect G&A to be higher than typical run rate as we have higher professional fee spend in Q4 that spilled over from Q3. Stock-based compensation is typically higher in Q4 as our annual grant date falls in December. Advertising and promotion is also typically highest in Q4 to support seasonal campaigns.

And finally, we will realize a full quarter of higher technology, occupancy and facilities costs related to our new London location. As we mentioned last quarter, we have been focused on managing our expense growth and driving efficiency to allow us to continue to invest in the strategic initiatives that we believe will result in future growth.

As part of this effort and in light of our hybrid working environment, we have been reviewing our real estate usage with the dual goals of enhancing in-person collaboration and reducing real estate costs. As a result of this review, we made the decision to consolidate associates at our Owings Mills, Maryland campus into 4 buildings down from 6 and to reduce the amount of space occupied in our Colorado Springs buildings by year-end. This is a change in office configuration, not a change in location or workforce strategy.

We have also been focused on enhancing our business, data and technology architecture to ensure we have the foundational support to underpin our strategic initiatives and drive



efficiency going forward. As we shared last quarter, our cost savings efforts over the last 12 months have removed or reallocated over \$200 million in operating expenses versus the run rate for 2024.

We continue to expect 2024 adjusted operating expenses, excluding carried interest compensation will grow in the low single-digit range. This growth rate will depend on final 2023 adjusted operating expense levels. And as always, this estimated growth rate is based on current market levels, and we may choose to adjust it if markets rise or fall significantly.

Spending a moment on capital management. We repurchased over 977,000 shares in the third quarter at an average price of about \$108 for a total of \$106 million. Year-to-date, we have repurchased a little under 1.4 million shares for just over \$150 million.

As of September 30, we had 223.5 million shares outstanding. Our recurring dividend remains a top priority through buybacks and dividends year-to-date, we have returned about \$992 million to stockholders while maintaining ample liquidity to support our seed capital program, opportunistic share buybacks and potential M&A.

As we complete the year and plan for 2024, we will continue to invest in our strategic priorities to pursue excellent investment performance and client service and to drive growth over time. We are also executing on our plans to reduce costs to fund these initiatives and maintain a low single-digit expense growth into 2024.

While flows will remain challenged through the fourth quarter, we are confident that we will start to see the benefits of these efforts in 2024. With that, I'll ask the operator to open the line for questions.

## QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question comes from the line of Alexander Blostein with Goldman Sachs.

Alexander Blostein: So maybe starting on the last point, Jen just made and Rob, you alluded to that as well earlier around confidence and improvement flows into 2024. Can you spend a minute on maybe some of the key strategies and initiatives you expect to contribute to flows in '24 that will start to move the needle? I'm not sure if it's ETFs or the private credit strategy. So anything you can help us to better frame the opportunities that you see for next year?

Robert Sharps: Yes, Alex, thank you for the question. Look, I did note in the prepared remarks that we expect November and December to have elevated outflows. And November, in particular, is impacted by a single large mandate.



December should be consistent with what we've seen in December for the last couple of years. So I do think it's logical to ask given that weakness, why are we confident that outflows should be lower next year?

And the first thing I would say is that we're already seeing some year-over-year improvement in flows in certain channels. In particular, channels that tend to respond a little more quickly to changes in performance. And that's despite what I would characterize as a pretty challenging industry backdrop. That is specific -- that improvement, I'd say you can point to a number of areas.

If you -- just look at trends in Q3. Right? We had just under \$3 billion of inflows in the retirement date funds and gross sales up 10% year-over-year. We have positive flows in fixed income, multi-asset broadly, and alternatives. You mentioned ETFs. We had our best quarter for ETF sales. It's still small in building. I think it can be a contributor in 2024, but I don't think it will be the most meaningful driver of performance or of improvement in flows.

I think the most meaningful driver will be 1) I think if some of the money on the sidelines from an industry perspective extends their time horizon or risk appetite, and you have the more flows in equities broadly.

2) I think a broadening of performance in the U.S. equity market would be helpful for active relative to passive. 3) you kind of ultimately, the longer-term performance numbers as they flow through will really begin to impact flows.

And 4) we've highlighted a number of different strategic initiatives that we're working on. Alternatives being one of them. So we do think that OCREDIT will contribute next year. But in the overall scale of our organization, I wouldn't necessarily say that I think either OCREDIT or ETF will be a predominant driver of improved flows. I think they'll be additive.

But we're going to have to see improvement in the core asset classes and in the core channels to really have '24 kind of be a better picture with regard to flows than 2023.

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

Craig Siegenthaler: Rob. Eric, Hope everyone is doing well. We have a question on another flow question, but focusing more on the redemption side of the equation. Most of your key equity flagship funds, and we're looking at blue-chip, growth stock, and mid-cap growth, they generated very strong performance over the last 12 months. And you're actually seeing this translate into month-over-month improvement in the flows from June to September.



So my question is, how is this impacting client discussions, the better 12-month numbers? And if you strip out the large institutional sub-advisory redemptions that you're expecting at year-end, why can't this lead to continued monthly net flow improvement into 2024?

Eric Veiel: Sure, Craig. Nice to hear your voice, and good morning. I would say a couple of things as it relates to these strategies. First of all, we're definitely encouraged by the improved performance over the year-to-date period and we're encouraged because it's come broadly and it's come with the support of really strong performance from our underlying research platform. Our analyst managed portfolio had a really strong year and continues to support our overall performance, which is key to what we do.

But client conversations vary a lot depending upon the type of clients. As you know, we're in basically every channel, every geography around the world with these strategies. What we're seeing as it relates to flows, as you discussed, those channels that tend to respond more quickly to performance, we are starting to see some better numbers.

But we have to continue to deliver the performance that we delivered year-to-date, over continued time periods because we will see eventually those one, the three and the five get better as we do that. And more and more channels are focused on those three and those five.

So we're encouraged in the short term, but we are far from complacent about it and recognize that we still have many more quarters and years of strong performance to deliver to get those three- and five-year numbers where we want them to be.

Operator: Our next question comes from the line of Patrick Davitt with Autonomous.

Patrick Davitt: You mentioned the kind of a few chunky sub-advisory losses that have been announced over the last couple of months. So could you frame the AUM base specifically exposed to that particular issue and more broadly frame the risk that this is becoming a more regular trend?

Robert Sharps: I'll start and then Jen or Eric can add any perspective. Look, our sub-advisory business is broad. We have sub-advisory opportunities in the wealth channel and we have a meaningful variable annuity sub-advisory business. The variable annuity sub-advisory business over time is likely to be under more pressure. In terms of sizing it, it is meaningful, but kind of well less than 10% of our overall book.

Overall, sub-advisory is a very, very good business for us and a business that we are committed to. We think it's a channel that values our brand. We think it's a channel that values performance. We do see some additional opportunity over the long term, in sub-advisory, particularly in the wealth channel, but we don't anticipate that there'll be much opportunity for growth outside of perhaps consolidating some market share, which is





really dependent on very good service as well as excellent performance in that VA channel.

Yes. I would note, with regard to the VA channel, the challenges in the VA channel, something that we've navigated for a very long period of time. So that's not something that's new or specific to the elevated outflows this year. It may be in a particular month or a particular quarter. But it's a part of the book that we've navigated some pressure over a relatively long period of time.

Operator: Our next question comes from the line of Brian Bedell with Deutsche Bank.

Brian Bedell: Maybe just one on the investment process, good to see the improved performance. But if you can comment on -- have there been any major changes to how you incorporate ESG risks? I know that's something that's been -- you've been working on for several years, particularly this year, and given the political backlash against ESG, is that changing how you incorporate that into the investment process?

And then similarly, what are you hearing from distribution partners in terms of demand for either ESG products or the inclusion within the investment process. Particularly, I know in Europe, it was -- it has always been table stakes there. Are you seeing any change in the institutional demand in Europe?

Eric Veiel: Yes. Brian, very good question. Look, we incorporate ESG into our investment decision-making process consistently and we don't let near-term or long-term political issues affect it. Our process is very much based on using insights generated by our fundamental analysts our -- using our fixed income team, using our responsible investing team.

And what the RI team specifically does it helps our portfolio managers and analysts identify risks and opportunities, understand the parts of the company's long-term strategy that could be materially affected by changes across ESG and then incorporating that into our investment decision-making process.

So it is not affected by short-term political wins, and it leads us to better outcomes for our clients in all environments.

In terms of demand, the ESG set broadly defined still grew in 2023 across the channels geographically. If you look at EMEA, APAC and even North America, if you exclude 1 very large reallocation that was done by a competitor firm within their retirement set. So we still think that there's commercial opportunity here and we work with clients to meet them where they want to be. We have the capabilities to do that across fixed income and equities. And we feel really good about that -- the capability that we've built over many years.



Operator: One moment for our next question, please. Our next question comes from the line of Ken Worthington with JPMorgan.

Kenneth Worthington: You seem to have critical mass in your active ETF offering with the recent launches. A couple of questions here. One, can you talk about how you're marketing the ETFs and what resources you're dedicating here? Maybe second, where is distribution today versus your goals? And then the bigger picture question is certain active managers like a JPMorgan have been particularly successful in taking in pretty significant assets into relatively new active equity ETF offerings.

Do you see a path forward for similar success at T. Rowe or is there something fundamentally different with your approach and others that you're seeing in the industry?

Eric Veiel: Ken, this is Eric. I'll start, and then Rob or Jen may want to come in as well. The way we've approached this market has been, I think, a very thoughtful one. As you know, we started first with five semitransparent active ETFs, which were clones of existing strategies that we're well known for. We then added five fixed income fully transparent ETFs, and then this year launched five fully transparent active equity ETFs.

Our approach to marketing these is to target the channels where we think that there's the most uptake for the improved structure that the ETF offers, especially for taxable accounts. So that would be ideally the U.S. wealth channel. And within that, the RIA channels as well as now we're starting to gain some traction on the larger broker-dealers as we get to our 12-month track records across this different suite.

In the case of TCAF, because the capital appreciation strategy and the portfolio manager, David Giroux, are quite well known. We've been able to accelerate some of the placements with that specific strategy. We've also backed this with targeted marketing campaigns and some dedicated sales function as well.

So we feel good about the approach that we're taking. And I think long term, over the next, call it, three to five-plus years. There's no reason why this can't be a very large and important business for us, and I think we'll grow meaningfully.

I'm not going to comment about how we'll do versus other specific competitors. I'm very comfortable with the approach that we're taking, and I'm bullish on our long-term prospects here.

Robert Sharps: I would just add quickly, we do think there's a big opportunity for active ETFs in the wealth channel. We do have some ETF specialists that support our regional investment consultants and home offices teams that engage with our broker-dealer and advisory clients.



We think there's a big opportunity given our multi-asset capabilities in models over time to use our ETFs as components of those underlying models. And I do think longer term, given the -- some of the traits of the ETF vehicle that there will be more for us to do with regard to evaluating opportunities where we can deliver our unique investment capabilities and address needs that clients have. So I think I'm encouraged that we're making some progress, but I do think we've got much more to do here.

Jen Dardis: I'd also add. I think thematically, as Eric talked about ESG and being able to be a point we can talk with clients about their needs and meeting wherever they are, ETFs are similar in the sense it's another capability where we can have conversations with clients about where they have gaps in their lineups and how we can meet those with the capabilities that we can develop, given the suite of products we already have.

Operator: One moment for our next question, please. Our next question comes from the line of Brennan Hawken with UBS.

Brennan Hawken: I was hoping you spoke to a 4Q uplift in some expenses. So it would be helpful if you can maybe size that versus the 1% year-to-date expense growth exit carry, you also said that it's seasonal and shouldn't carry it in 2024. So just hoping to clarify, are you saying that you don't expect a seasonal uplift in 4Q '24 from similar items because of your expense efforts? Or were you just saying that it won't carry into the first quarter of '24?

Jen Dardis: Sure. So from an overall perspective, that's what we tried to give the 2% to 4% range for the full year to give you a sense for what the fourth quarter would be to fill in against the actuals through the first three quarters. And then with regard to the seasonal items, some are seasonal and would be similar in fourth quarter this year and fourth quarter next year, some are more onetime in nature. But the comment that you made about carrying over into Q1, certainly things that are seasonal in Q4, we would expect it wouldn't go into the Q1 number.

Just to dimensionalize it, first of all, we mentioned a onetime item. This was an operating item that we mentioned was a recovery of prior period costs. That's about \$20 million, so you would expect that would not recur and then that benefit would not recur. And then the other items are a little bit more evenly split in terms of an increase in professional fees, the long-term incentive plans - this is the stock-based compensation, and we have retirement vesting that are recognized in December when we do those grants. So that creates a pop every fourth quarter.

Operator: (Operator Instructions) Our next question comes from the line of Michael Cyprys with Morgan Stanley.

Michael Cyprys: Just a question on retail SMAs. I was hoping you could update us on the traction that you're seeing in your approach to the marketplace there with retail



SMA? And how much is it contributing to flows today. Maybe you can just remind us how many strategies you currently offer in SMAs and where you'd like to see that in three years and some of the hurdles you guys may have to overcome so you kind of want to bring more to the marketplace, particularly over on the fixed income side?

Robert Sharps: Yes, this is an important element of our strategic initiative with regard to U.S. wealth. And we've worked pretty hard to bring a broader number of strategies to market. Today, we are over 20 in terms of the number of investment strategies that we offer in retail SMA, and we are getting traction as we broaden the availability and broaden our offering.

It's going to take some time. This is a part of the market where manager rosters and lineups are, in many instances, reasonably well established. I do think that many of our wealth partners want T. Rowe Price strategies available in SMA and are looking for opportunities for us to get new placements. We have seen a number of new placements this year. So it is a focus. Jen, any specifics with regard to AUA or flows that we share?

Jen Dardis: No, there hasn't been. It's not a significant number in the flows at this point. Again, I think this is part of an overall plan. If you think about the wealth strategy that we've been talking about for the last year, newer vehicles are part of that broader plan and some clients prefer ETF just based on their clients and how they buy, some prefer SMAs and obviously, some platforms still have a fairly large mutual fund complex.

And so as we think about being able to provide our products for clients, we want to just make sure we have that broad suite of vehicles available for whatever type of clients that are buying from them.

Robert Sharps: Yes. With regard to specific successes or launches this year, we did bring a muni SMA that was developed specifically for a single distribution partner. We also launched earlier this year, two additional equity SMAs, U.S. All Cap opportunities and Global Focused Growth. As I said, this continues to be a big opportunity.

I think we disclosed an AUA number that is roundly \$10 billion. But you have to remember that, that includes not only model account submission in retail SMA but also where we do glide path advisory and custom target date funds. So that wouldn't all be the sort of SMA that you're necessarily referring to or that we're talking about in terms of addressing the channel -- the opportunity in the wealth channel.

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

Glenn Schorr: I guess, straightforward one that -- Target date allocations to you all have normally or traditionally been very long equity. It's helped you have great performance, your flows are great, kind of no complaints. But I'm curious if you've made or contemplated making any shifts in allocation given the rise in yields and flows into fixed



income. Just curious how you're thinking about that as the world has obviously shifted some?

Robert Sharps: Yes, Glenn, maybe less straightforward than you think. First, we offer our flagship series, which is a higher equity glide path. We also offer a target series which is a lower equity glide path for those clients whose participant base has a lower risk tolerance or for clients that prefer that as part of their overall plan design. That's the first point I would make.

The second point I would make is that while the strategic portfolio design determines the equity allocation at a certain point along the glide path, we also have the ability to make tactical allocations to asset classes and underlying building blocks. And we've actually been underweight equities over the course of this year from a tactical asset allocation perspective.

So our asset allocation committee has the flexibility to -- within bands, reallocate funds along that glide path. I also would say that within our equity allocation, there are building blocks that are more or less conservative, and we've worked on developing and introducing a hedged equity component that ultimately has a little less equity beta.

Finally, I would point out that in Q3, while the markets were down, we had excellent performance within our target date series across low and high equity glide path and across vintages and that was driven at the margin a little bit by that underweight of equities, but I would say more so by the strategic portfolio design in some of the building blocks that we have in fixed income and just very strong security selection in the underlying strategies.

So beneath the surface, there's a lot going on there. You're right that philosophically, we do believe, particularly for longer-dated vintages that a high equity component is really important. But there are other ways to drive value in terms of the strategic portfolio design and the building blocks, the tactical asset allocation, and the security selection of the underlying portfolios. And so far this year, I think we've been hitting on all cylinders.

Operator: Our final question comes from the line of Daniel Fannon with Jefferies.

Daniel Fannon: I wanted to follow up on the Target Date franchise. I think, Rob, you mentioned gross sales were up 10% year-over-year. And then, Jen, you also mentioned some of the year-end dynamics that sometimes happens with plan sponsors.

And so I was hoping to talk about the near-term opportunity associated with some of the strong performance you just highlighted and what that means for gross sales. But also maybe longer term, as you think about the passive dynamic within this asset class or this channel and ultimately, how conversations are happening with plan sponsors and how you think that develops over the next kind of 12 months?



Robert Sharps: Yes. Dan, thank you for the question. Look, we feel like our flagship retirement date funds are the best offering in the business. If you look at the strategic portfolio design, if you look at the underlying building blocks, a number of alpha-rich diversifiers in there, areas like bank loan, areas like high yield. It's been a big focus for us.

We made a substantial investment in 2021 in the competitiveness of our fees. And we also have a broad range. For those plans that are particularly fee sensitive. We have a blend series that does use passive in U.S. -- in large cap U.S. equity and in core fixed income. So we really believe we have a great value proposition to take on passive. And I think if you look at the performance of the T. Rowe Price funds, whether it's the flagship or whether it's blend and you compare that to passive. I think the numbers really stand for themselves.

It's an important area for us. It's an area that we dedicate specific marketing dollars and support to and it's an area where we have momentum right now. We have record flows on a year-to-date basis in the Target Date franchise. There are always some planned dynamics around year-end, where you might have a plan that's terminated often times, new ones on board in January.

So I'm not going to comment on -- and sometimes there's not even a lot of visibility as you go into year-end with regard to whether or not something kind of either going out or coming in will land in December or land in January.

But if you take the longer view, we feel really good about the value proposition. We feel really good about our momentum. It feels like our retirement franchise as a whole is really resonating in the marketplace, and we're excited to carry that momentum forward into 2024.

Jen Dardis: Yes. I think we've talked in previous times. If you think about the flows into Target Dates, there are two components. There's the participant flows that go in that are kind of more regular. These are the paycheck additions or distributions for people who are in retirement those don't add significantly to the balances year-end and throughout the year.

But -- so when you see the flows into target dates on a net basis, those are actual new plan wins typically. And so when we talk about pressure at year-end. That's about plan changes, not about participant changes. And so this is a good sign for us as we look at positive flows that we're continuing to add new plans to the stable of clients that we have.

Operator: Our next question comes from the line of Finian O'Shea with Wells Fargo Securities.



Finian O'Shea: A question for OCREDIT. Can you give an update on your progress with distribution partners and maybe how you're seeing monthly or quarterly sales starting out in the context of what the industry is doing? And then maybe how do you consider the puts and takes in rolling out additional direct lending vehicles for retail in the registered fund format?

Robert Sharps: Yes. Finian, thank you for the question. Okay, in terms of trends, we actually just reached effectiveness at the end of the third quarter. So this is really our first month.

And our current focus is on building a wide distribution syndicate of wealth platforms by leveraging our strong existing relationships in the wealth channel. So we have regional investment consultants in the field that have relationships with brokers and advisers.

We've got the home office relationships, and we're really just getting started. I think what we've heard is that the combination of OHA's 30-year history of delivering great performance in alternative credit and T. Rowe Price's presence in the wealth channel and resources in the wealth channel should be pretty powerful.

Before we worry about kind of thinking about what we're going to do next. I think we're really, really focused on executing with regard to OCREDIT. We think it is a very well-designed excellent value proposition in a way to bring the OHA capabilities to the wealth channel.

We will, in time, think about what our product pipeline is and kind of ultimately, I think, build on the success of this with follow-on offerings and we'll engage with our wealth clients to see where there are opportunities to do some things that are unique and it will be in demand. We -- as we go out, we do have a handful of top advisory platforms that we're launching on in Q4 and have some visibility with regard to launch with regard to other partners as we get into early 2024.

So for now, we're really excited about OCREDIT. I'd say much too early to comment on kind of monthly flows, but we're encouraged by the platforms that we're launching on. And our team will be working hard on what the right follow-on will be in this marketplace, but it will be some time until our focus pivots from being really successful with OCREDIT to what the next offering will be.

Operator: Thank you. I would now like to turn the conference back to Rob Sharps for closing remarks.

Robert Sharps: All right. Very good. Thank you for joining us and for your interest in T. Rowe Price. As we've talked about, our investment performance continued to show signs of strength this quarter, particularly in our largest franchises, our associates are working



hard to make progress on our strategic initiatives, and we're very, very focused on executing against our cost-saving efforts.

While we continue to face elevated net outflows, we are very optimistic that the flow picture will improve in 2024. And I'm very confident in the work our associates are doing and our plan to make progress toward returning to organic growth. Really appreciate the dedication and hard work of our associates, and that's kind of really what's behind that progress. So thank you again.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.