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Corporate Speakers:

- Linsley Carruth; T Rowe Price Associates Inc; Director of Investor Relations
- Rob Sharps; T Rowe Price Associates Inc; Chief Executive Officer and President
- Jen Dardis; T Rowe Price Associates Inc; Chief Financial Officer
- Dee Sawyer; T Rowe Price Associates Inc; Head of Global Distribution
- Eric Veiel; T Rowe Price Associates Inc; Head of Global Investments

Participants:

- Craig Siegenthaler; Bank of America; Analyst
- Michael Cyprys; Morgan Stanley; Analyst
- Daniel Fannon; Jefferies; Analyst
- Patrick Davitt; Autonomous Research; Analyst
- Brian Bedell; Deutsche Bank; Analyst
- Alexander Blostein; Goldman Sachs; Analyst
- Kenneth Worthington; JPMorgan; Analyst
- Brennan Hawken; UBS; Analyst
- Aidan Hall; KBW; Analyst

PRESENTATION

Operator: Good morning. Welcome to T. Rowe Price's First 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. Please go ahead.

Linsley Carruth: Hello. And thank you for joining us today for our first 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 CEO and President Rob Sharps; CFO Jen Dardis, and Head of Global Distribution Dee Sawyer will discuss the company's results for about 20 minutes. Then we'll open it up to your questions, at which time we'll be joined by Head of Global Investments, Eric Veiel.

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. Now I'll turn it over to Rob.

Robert Sharps: Linsley, thank you. And thank you all for joining us this morning for our first quarter update. Before I get started, I'm pleased to say that Dee Sawyer, our Head of Global Distribution and a member of our firm's Management Committee, will be joining us today. Dee will provide an overview of our Retirement business, which is critical to our clients and integral to our firm's long-term success. We'll hear from Dee after Jen's update on our financial results.

With that, I'll turn to first quarter performance. Tailwinds from stronger-than-anticipated markets drove assets under management up in the first quarter, bringing our total assets under management to $1.54 trillion as of March 31, a 15% increase over the first quarter of 2023.

Our first quarter net outflows of $8 billion were about half the level we had in the first quarter of last year. This improvement came from increased client demand driving higher sales and stronger investment performance reducing redemptions, particularly in U.S. equity.

As I said on last quarter's call, we expect to see net outflows in 2024 but anticipate substantial improvement compared to last year. However, this improvement will not be linear. It's important to understand that monthly flows can be heavily impacted by client activity, including rebalancing, new mandates and terminations.

So far in the second quarter, net flows are shaping up to be weaker in April, in part due to rebalancing in a handful of large clients. However, at this point, our pipeline suggests the balance of the quarter will be stronger.

Investment performance was solid in the first quarter, with 65% of our funds beating their peer group 1-year medians.

I'd like to mention a few other performance highlights.

- Our Capital Appreciation, U.S. Equity Research, Mid-Cap Value and Financial Services funds all had top quartile performance versus peers for the 1-, 3- and 5-year time periods.
- Our Integrated U.S. Small Cap Core and Integrated Global Equity funds, which combine our fundamental and systematic processes, were also top quartile performers for these time periods.
- And in our multi-asset range, our nearer-dated retirement funds, the 2005 to 2035 vintages, as well as our managed payout fund, Retirement Income 2020, are all top quartile performers for the 1-, 3- and 5-year periods. All vintages of our more

recently launched Retirement Blend funds are top quartile performers for the 1-year period.
- Over 50% of our fixed income funds beat their peer group medians for the 1-, 3- and 5-year time periods, and several of our fixed income Muni Funds, as well as our Global Multi Sector Bond, Credit Opportunities and U.S. dollar-hedged International Bond funds, are in the top third of their peer groups for these same periods.
- Investment performance across the alternatives platform in the first quarter was generally strong. Private credit, Structured products and liquid portfolios generated attractive returns driven by strong credit selection and favorable market dynamics.

Before I turn it over to Jen, I want to acknowledge our associates. We reached important milestones in the first quarter, thanks to their hard work and commitment to our clients, including:

- Our Capital Appreciation Equity ETF surpassed $1 billion in assets under management, less than a year after its launch last June.
- Across a number of channels, we are seeing sales momentum with significant year-over-year gross sales improvement with our wealth and individual investor clients.
- Earlier this month, OCREDIT launched on its first major wire house, demonstrating the close partnership of T. Rowe Price and OHA in successfully launching our first BDC with a key strategic partner in the wealth management channel.
- We retained our number two position among the over 330 asset managers nominated in *Institutional Investor's* 2024 ranking of America's top asset management firms. This distinction reflects the value of our corporate access model and the importance of our differentiated research capabilities.
- And for the 14th consecutive year, the firm was named one of *Fortune* magazine's World's Most Admired Companies.

I'm proud of these accomplishments, and I'm grateful to our associates around the globe who continue to put our clients first in everything they do.

With that, Jen will now provide an overview of our first quarter results.

Jen Dardis: Thank you, Rob, and hello, everyone. I'll review our first quarter results before turning to Dee for a look at our Retirement business.

Our adjusted earnings per share of $2.38 for Q1 2024 was up 40% from Q1 2023, driven by higher average AUM and investment advisory revenue, and offset marginally by higher expenses.

As Rob mentioned, we had $8 billion in net outflows for the quarter. Across asset classes, outflows were concentrated in U.S. equity, particularly large and mid-cap growth strategies.

However, it's important to note that this quarter's U.S. equity outflows were less than half the level in the first quarter of last year, a meaningful improvement driven by higher sales and lower redemption rates, and consistent with improved investment performance.

There were a few notable areas of strength within the equity franchise, including U.S. Structured Research and U.S. Smaller Companies, both of which had strong flows to the SICAV product from EMEA-based clients.

In fixed income, strong investment-grade flows in the institutional channel were offset by continued outflows from Stable Value in the DC channel.

Our target date franchise was positive for the quarter, with inflows of $6.8 billion, offset in part by outflows from other multi-asset products.

And finally, we had just under $1 billion of outflows in alternatives from manager-driven distributions. However, we are encouraged by recent trends in fundraising and expect capital raising to increase through the year.

Turning to our income statement, Q1 adjusted net revenues were $1.8 billion, a nearly 14% increase from Q1 of last year, driven by higher average AUM.

Our investment advisory revenue of $1.6 billion included $17.6 million in performance-based fees, predominantly from two of our U.S. equity strategies. These performance-based fees had a half a basis point impact on our effective fee rate of 42.1 basis points.

Our Q1 adjusted operating expenses were $1.1 billion, which is up almost 5% over last year from market-driven expenses, including the interim bonus accrual and distribution and servicing costs. Expense growth was tempered by the cost savings efforts we announced last summer.

Our adjusted operating expenses were down nearly 7% from Q4 2023, due to the Q4 seasonality in stock-based compensation, professional fees, and advertising and promotion expenses.

Adjusted operating income increased 31% from Q1 2023 to $692 million. This brings our rolling 12-month adjusted operating margin to 36%, up from 35% a year ago.

Given the rise in equity markets over the last few months and related impact on our market-driven expenses, which, as a reminder, is about a third of our expense base, we now expect 2024 adjusted operating expenses, excluding carried interest expense, to be up 5% to 7% over 2023's $4.19 billion.

Maintaining a strong cash position and distributing capital back to our stockholders remains a priority. We bought back $80 million worth of shares during the first quarter, reducing the shares outstanding to 223.5 million as of March 31, and have continued to buy back in April. Combined with our quarterly dividend of $1.24 per share, we returned $365 million in the first quarter.

With $2.9 billion of cash and discretionary investments on our balance sheet, we have ample liquidity to support the recurring dividend, continue opportunistic buybacks and, if they were to arise, to pursue select M&A opportunities to add capabilities to our business.

We continue to manage the business with a long-term lens, balancing the investment in our strategic initiatives to drive growth over time with the need for ongoing expense discipline.

From this position, we can continue delivering exceptional value for our clients by decking resources against new opportunities and added capabilities, while also identifying process improvements and driving efficiency.

And now I'll turn it over to Dee.

Dee Sawyer: Thank you, Jen. I am pleased to join today's call to talk about our Retirement business.

As Rob noted, our clients have entrusted us with $1.54 trillion in assets. Of that, over $1 trillion, more than two-thirds are identifiable as retirement assets, demonstrating that retirement is a critical component of our business. Slides 15 and 16 in the supplemental deck provide a detailed view of our retirement assets.

I want to take a moment to share a few highlights.

- First, the majority of our retirement assets, $676 billion or 65%, are in U.S. defined contribution plans, with the balance in defined benefit and individual IRA accounts.
- Taking a closer look at our U.S. defined contribution assets, $395 billion or almost 60%, are in our Target Date franchise. In fact, we are the top manager of active Target Date assets, a position we have held for seven years, and we have the third largest market share overall.
- But our DC business is more than Target Date. Plan sponsors select T. Rowe Price for equity and fixed income investment options as well, with U.S. large cap growth equity and Stable Value being the largest proportion of the balance of our DC business.

We serve the DC channel in two ways.

- The majority of our DC assets are DC investment-only or DCIO, where the consultant, adviser, or plan sponsor selects T. Rowe Price to provide one or more of the investment options in their plan that is a record kept on an external platform. We are the fifth largest DCIO provider in the U.S.
- About one quarter of our DC assets are in our full-service record-keeping business, which we refer to as Retirement Plan Services or RPS.

    - Plan sponsors hire us to provide record-keeping services as well as key investment options for their plan lineup. As of the end of 2023, we provided these services for over 8,100 retirement plans.
    - About 60% of all of our RPS assets under administration are invested in T. Rowe Price products, which has been consistent over the past several years and is a significantly higher portion of proprietary assets than the industry average of 27%.

We provide solutions for a wide variety of clients, including our broad array of equity and fixed income strategies and our market-leading target date franchise. These are offered through a range of funds, common trusts, and custom solutions.

Within our Target Date franchise, we offer higher and lower equity glide paths and approaches that include both active and passive building blocks.

And our solutions extend to not only investment products, but also to tools and services to help clients, plan sponsors, and participants manage their retirement accounts, track progress along their retirement journey, and help improve their overall financial wellness.

Through our record-keeping business as well as our individual investors channel, we have direct retirement account relationships with over 3.2 million end investors. The insights we derive from these relationships, coupled with the emerging trends we identify from our work with plan sponsors and intermediaries, enhance our ability to design innovative solutions and research to pursue better retirement outcomes.

As a generation of retirement savers have aged and shifted from the accumulation phase to the decumulation phase, developing solutions to help people convert their retirement assets into income has become increasingly important.

Our proprietary research suggests that participants will need a variety of retirement income products and services to meet their individual needs in the decumulation phase, so we take a broad approach to retirement income.

That means …

- stand-alone retirement income products such as our managed payout products;
- single strategy investment products such as fixed income funds;
- along with the various services we offer including guidance, retirement thought leadership, and calculators;

…are all included within our definition of retirement income.

Our broad distribution organization allows us to access all retirement client segments, whether direct to the consumer or through intermediaries, institutions, consultants, or advisers.

We also have been adapting the expertise we have honed in the U.S. retirement market to pursue opportunities in the large retirement savings market in other countries. This access, along with directly managing end investor relationships, uniquely positions us to anticipate and deliver what our clients need. And as a result, we are continuously innovating and adding new capabilities. A few examples include:

- Our managed payout products, an all-in-one solution for retirees, which offers the familiarity of our Target Date product, with the benefit of providing stable monthly income throughout retirement. We added a 2025 version of these funds in January.
- The recently launched social security optimizer tool, which is designed to help individual investors and participants maximize social security benefits, which are a critical part of the retirement income equation for many savers. This is an early example of the impact of last year's Retiree, Inc. acquisition.
- And the Retirement Advisory Service, which offers ongoing access to advisers and personalized financial planning. The financial plans include tax-aware retirement income planning and actively managed portfolios led by the expertise of our multi-asset investment professionals.

We are excited we will be launching our new Personalized Retirement Manager in the third quarter. This is an evolution of our robust Target Date offerings, driven by a highly customized approach. We plan to deliver a dynamic personal glide path for each participant by using plan level data, additional factors provided by participants and analyzing their portfolio through a monthly multifactor assessment.

And in the fourth quarter, we plan to launch a Managed Lifetime Income solution that will allow participants to combine a managed payout strategy with a Qualified Longevity Annuity Contract or QLAC. The product is designed to enable a consistent income stream in retirement, while guaranteeing a minimal level of income for life after a defined age.

It is also important to mention that the breadth of our retirement platform enables us to develop industry-leading thought leadership and research on key retirement topics. We leverage both to build client relationships, advance our position as a retirement leader and enable clients and participants to pursue better retirement outcomes.

I will close by saying that the leadership team and our associates are deeply committed to helping our clients confidently prepare for, save for, and live in retirement. We are grateful for their trust in us, and we will continue to use our expertise to drive capabilities and solutions that meet their evolving needs.

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

QUESTIONS AND ANSWERS

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

Craig Siegenthaler: Given that Dee is joining us, I do have a retirement question for her.

If alternative investments enter the retirement channel, is it more likely through single investment elections or inside of a Target Date fund? And given that T. Rowe's ownership now includes OHA, is there potential for alts inside of a T. Rowe Target Date fund anytime soon, because we understand price may be one headwind with DC plan sponsors.

Dee Sawyer: With regard to alternatives, this is an area we have been actively researching. Given preferences and regulatory guidance, there are some complexity around adding alternatives within a 401(k) plan such as the daily NAV.

However, if we were to introduce alternatives for our Target Date strategy, we could act quickly with Target Date solutions, including T. Rowe Price solutions or OHA solutions or others because we have a long list of partners that would be able to work with us in order to do that.

In regards to the specifics, we would likely offer that in a custom solution with a plan sponsor, and we have the benefit to be able to work with many plan sponsors, who are asking us around how can we continue to advance solutions.

Certainly we could offer this also in a stand-alone parallel solution, and that would be another way that we could bring this to market when and if it makes sense.

Rob Sharps: Yes, Craig, this is Rob. I'll just add a few things. One, it's a priority for us to continue to evolve and improve our Target Date offering. And this is an area that we've given a lot of thought to.

My first observation is that we've seen very limited interest from plan sponsors in incorporating alternatives into defined contribution lineups, either as a stand-alone investment offering or as part of target date funds. And as Dee mentioned, there are some limitations around accommodation of the record-keeping system, daily liquidity, daily pricing, those sorts of things. There's also a tremendous amount of fee sensitivity in the defined contribution marketplace and alternatives naturally have higher fees.

Where we have seen interest and where we've engaged are primarily in custom target dates that are designed by corporate clients, usually where they have a defined benefit plan, and they have an investment staff and an existing roster of alternative investment managers.

So, it's something that we're paying a lot of attention to. We're engaging with our plan sponsor clients and listening to what they want. But so far, there's been really very little adoption or interest in alternatives in defined contribution.

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

Michael Cyprys: Maybe just sticking with the retirement theme. I was hoping to double click on decumulation. Just hoping you could talk a little bit more about the opportunity set that you see for decumulation products. What product structures, in particular, do you think have the biggest opportunity as you look out over the next 10 years?

And with the products you have so far, just curious what traction you're seeing and with the new managed lifetime income solution that you're slated to launch later this year, just curious what ultimately you think will be the most successful way to approach that from a distribution standpoint to win as you think about the channels and go-to-market strategy?

Dee Sawyer: Great. Thank you so much for the question. I'll start us off. So first, I think I would highlight the breadth of our retirement platform, which gives us access to plan sponsors, intermediaries, and participants. And this is really important because it allows us to really understand what types of retirement income solutions are critical for the varying types of participant needs in the decumulation phase.

What our research indicates is that these needs and preferences are diverse, and our perspective is that there will not be a one-size-fits-all solution for retirement income.

As you noted, we currently offer managed payout solutions, and we do have nearly 60 retirement plans that are using those solutions, which represents approximately 20% of our AUA in terms of overall coverage.

Our payout solutions, our Retirement Income 2020 solution has been launched seven years ago, and then we extended that to offer it through our Retirement Plan Services solution.

As you noted, we are working on a retirement insured solution, which we're calling Managed Lifetime Income product. This will be a collective investment trust vehicle, and we're planning to launch that in the fourth quarter of this year.

We also are planning to launch, as I mentioned earlier, Personalized Retirement Manager, which is also a way to extend, as time goes by, into retirement income as well. This is a managed account program that we're excited about launching, and it will be introduced in the third quarter of this year.

So long-winded way, perhaps of saying that we do believe that it's really important to offer a variety of types of solutions in order to meet the different types of needs, and that's what we found by working with participants, individual investors, plan sponsors, as well as advisers.

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

Daniel Fannon: Rob, I was hoping you could provide additional context around the trends you discussed of better gross sales as well as lower redemptions. It seems like April here is a bit more mixed. But can you talk to maybe the difference in the channels and/or geographies where you're seeing the biggest improvements versus what we saw last year?

Rob Sharps: Yes. Dan, thanks for the question. At a high level, I would say that our outlook for flows for the year really hasn't changed from what we discussed in January on the fourth quarter call. Although I would say that we have higher conviction now that our outflows this year will be substantially lower than they were last year.

As I've talked about in the past, I think investment performance is a good leading indicator and continue to be pleased with what we're seeing, particularly in U.S. equity. Performance in U.S. large cap growth is clearly having an impact. We've seen redemption rates there normalize. And we've begun to see the beginnings of a recovery in gross sales in that suite. Obviously outflows in Q1 being half of last year's level is an encouraging data point. I'm encouraged that the retirement date fund flows remain strong, just shy of $7 billion in Q1.

I'd say our ETF momentum, Dan, is building, it's small, but growing to a point where it is having an impact. And I would just say our pipeline is healthier in general. With improved performance, we have less AUM marked as at risk.

We have more in the way of notified unfunded wins, fewer notified terminations, and there's just more activity around new opportunities. At OHA, I think the capital raising pipeline there is going well and ultimately that will convert to growth in fee basis AUM and flows.

With regard to channels, we actually had modest positive inflows in three of our channels in Q1. And even in the areas where we remain with outflows, we did see less in redemptions and improving gross sales. Look, flows are extraordinarily hard to predict.

As I noted in the prepared remarks, we did have some rebalancing impact in April that was very short notification and went against us. That easily could have gone the other way.

I mean ultimately, there are instances where you have really compelling performance or you manage an asset class that has outsized performance, and the underlying clients need to target back -- or rebalance back to their target allocation.

So those sorts of flows are part of the business. I think that is -- it makes me much less concerned than when we're losing mandates or being terminated.

The last thing I would say with regard to flows is that the industry backdrop really seemed to be firming in the first part of the year really through Q1, and it has been softer in April from the high-frequency data that we get.

So I think we'll just have to watch with regard to whether that's a blip or kind of whether it's the beginning of a period of softer underlying flows broadly.

But ultimately, there are a lot of things that I see that are encouraging that will allow us to, as I said, kind of have substantially less in the way of outflows throughout the course of the year, even if it isn't linear improvement.

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

Patrick Davitt: My question is on the expense guide. Are you factoring in the full 1Q AUM mark to that? Or did you discount it a bit given the Q-to-date beta quite negative?

Jen Dardis: Yes. Thanks, Patrick. We -- similar to last quarter, we used first quarter average as an estimate for our expense growth guide, and we try to give a range around reasonable assumptions for market movement from that average in our percentage guide. And as you noted, we've had some decrease in markets in the first start of the -- in the start of April -- in the quarter, but that puts us back around the place we started from an average perspective.

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

Brian Bedell: Maybe just to go back to the retirement business. Can you talk a little bit about how you viewed the DCIO segment versus the full-service record-keeping segment in terms of economics to T. Rowe Price? I know full service is more costly, can be lower margin, but you, I think, have a better ability to capture IRA rollovers there. So if you can talk about that dynamic.

And then as you evolve your solutions, do you have more flexibility to do that with the record-keeping plans, hence that makes that segment more attractive than DCIO from that standpoint?

Dee Sawyer: Sure. So thanks for the question. Let me offer a couple of points. So the first point that I would offer is when you look at our U.S. defined contribution assets under management, roughly 75% of those defined contribution assets are our DCIO channel.

And so we feel really strongly about the fact that we continue to offer solutions across many different types of record-keepers and through many different types of accounts in that DCIO channel, and that's through hard work with partners on the intermediary side of our business.

With specifically about our retirement services business, we feel really good about that business in the fact of two things. So number one, as I mentioned in my earlier remarks, in the fact that 60% of that business overall is in proprietary products, and that's unique for T. Rowe Price.

The second thing about that retirement business is we do also have an individual investor channel where a participant, if they should choose, can roll over. And we do see that, that is an advantage for us in terms of overall economics, but overall meeting participant needs where they are. So hopefully, that's helpful perspective.

Rob Sharps: Yes. The one thing that I would add quickly is within our individual investor is one area that we've been investing in is our advisory capability, specifically around rollovers and retirement.

So in addition to the Retiree acquisition last year, which is another tool to help optimize decumulation, we've been investing in Retirement Advisory Service, and it's part of the individual investor business that's growing.

Jen Dardis: Maybe picking up on one more point that you mentioned, Brian, because we do have the recordkeeping business in-house, we are able to more quickly roll out solutions that we want to add on from a plan sponsor perspective.

So all the services that Dee talked about earlier, because we have the inner-workings of the plan record keeping, we're able to launch those more quickly than if we had to do that on another platform. But it does allow us to kind of test those and then roll them out more broadly as clients prefer.

Rob Sharps: It also gives us some pretty meaningful perspective to engage with clients outside of the U.S. as defined contribution schemes evolve.

So we have an existing opportunity in Asia. We're working on another one. And there are a handful of opportunities to partner with folks to leverage the expertise that we have as a retirement date fund provider. But also as a plan sponsor to kind of partner with people outside of the U.S. as they really develop their approach to defined contribution.

Operator: And our next question will come from the line of Alexander Blostein with Goldman Sachs.

Alexander Blostein: I was hoping we could dig into OHA a little more, just kind of thinking about the underlying growth drivers from here. The revenue base has been a little bit more range bound over the last couple of quarters, and it's nice to see you guys launch a nontraded BDC out, so that's up and running.

But as you think forward, what do you see as kind of the key building blocks to accelerating revenue growth in this business? And are there any other known redemptions that you might call out kind of related similar to what you've seen recently?

Rob Sharps: Yes, Alex, thanks for the question. On the latter, I would say nothing that kind of would be material enough to call out in terms of known redemptions there. If you take a step back, I'd say there are many elements of the OHA deal that I'm very happy with.

I think it's been an excellent cultural fit. They are very good investors. They have associates that are deeply committed to their clients. Their investment performance across their range of strategies from distressed to structure to multisector has been very strong.

We have some emerging distribution synergy. You mentioned launching the BDC in the wealth channel, so that's the first of many potential opportunities there. And I'll spend a few seconds more specifically on that.

But we've also seen multiple T. Rowe Price referrals from institutional relationships around the globe that are now translating into new business for OHA.

But as you noted, the growth in fee-basis AUM has been slower, particularly over the course of the last couple of quarters. There have been some redemptions primarily in their liquid book. There's been some challenges around deployment.

Some of what they do in distressed is trigger based. And it -- I suppose it's a good thing that there hasn't been a lot of distressed or spreads haven't been wide enough to actually trigger calling and deploying some of that capital.

There's been less new issuance in private credit in general, and OHA has been less active in some of the parts of the market that have grown most rapidly. So insurance or senior direct lending. That said, I think the direction of travel here is encouraging. I noted earlier, when I was talking about flows, that our capital raising pipeline is strengthening.

I would expect call it, mid-teens growth in capital under management, and in particular, their dedicated senior private lending product is gathering a lot of momentum. I do think, ultimately, they'll have, call it, kind of mid -- high single-digit growth in fee-based AUM this year, and that will start to build momentum going forward.

Specifically as it relates to OCREDIT, we had almost $1.4 billion in invested assets in OCREDIT at March 31. And I think we're doing all of the things we need to do to deliver a great experience for our wealth partners and their underlying clients.

The most important order of business right now is scaling and successfully launching on multiple platforms.

We had an important launch, our first wire house earlier this month, and we've had several smaller launches and have several lined up for the May to July timeframe and are working on filling things in beyond that. And I would say I'm encouraged by those discussions and the visibility, with regard to how that will unfold over the course of the next year.

We've had really good conversations with a range of clients from large broker-dealers and private banks to regional RIAs.

We are investing in our sales capacity and field support including education and additional alternative specialists. Again, this is the first of several offerings that we hope to bring to the wealth channel.

I think what I found is that this is a long sales cycle. It's the first time we've done this. So it has taken longer than I would have anticipated or I think the OHA folks would have anticipated at the outset. But I still think that it's a very, very large opportunity and I'm really enthusiastic about kind of what it will bring in time.

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

Kenneth Worthington: Dee, a couple more questions for you, please. BlackRock announced its Paychecks product. Does the BlackRock announcement change the equation at all for de-accumulation or the competitive environment in retirement?

Maybe second, do you feel that T. Rowe is ahead of peers in decumulation or retirement customization? And if so, are you ahead enough to win new business? Or is this more about keeping existing business?

Dee Sawyer: In terms of -- let me answer your second question first. I think we are in a really good position where we are with our overall approach to retirement income and how we are making sure that we are continuing to meet the evolving needs and addressing the complexity of decumulation.

And so we certainly already have products in the marketplace. And then I mentioned a couple that are already in development that we're excited about launching later in the year. And so I would tell you, I feel really well -- really good about our position overall to be able to meet the needs of plan sponsors and end investors.

I think it's also important to note that we do plan to continue to extend those relationships through our other channels including our intermediary channel, making sure that we're partnering with advisers and their end clients. And so we feel good about our lineup that we have today as well as the lineup coming.

So that would answer the first question -- or the second part of your question. Regarding the first part of your question, what I would tell you, though, is as we think about retirement income, it's just important to note that there is a fair number of solutions in the marketplace. And where I would say we are differentiated is in the fact of the breadth of our platform.

If you think about the fact that T. Rowe Price is uniquely positioned in the fact that we work with plan sponsors. We work with end investors. We work with intermediary clients. We work with institutions. We work with clients across the globe. We are uniquely positioned to be able to support that all the way across.

More specifically around retirement income, we also have solutions comparable to the solutions that you've mentioned. And so I do feel that we are well positioned, and there isn't anything that I would say is notable to say that we're behind to mention on this call.

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

Brennan Hawken: I was curious about a couple of things on the expense front. You mentioned that there's a capitalization of labor in the U.K.

So curious about what that impact was in the quarter and how you expect that would impact the expense growth going forward. You also referenced a change in practice around explicit payment for research. So curious about what sort of impact that has on 2024 growth in expenses?

Jen Dardis: I think for the first part of the question, just maybe to clarify, it wasn't about a capitalization of labor. This was related to our U.K. entity where we moved into a new building at the end of last year, and we had a nonrecurring benefit in the first quarter of this year related to that.

It's not material in terms of operations and really wouldn't be expected going forward. We just called it out as a onetime benefit. With regard to research fees, yes, we did call that out as a benefit in 2024.

I think what I would say is that we remain fully committed to external research and its value, but the mix of hard and soft dollar will flex over time as we work with different regulations and work with how our clients want to receive those.

Rob Sharps: Yes. That mix is really driven by the regulatory environment and client preference.

Operator: Our next question comes from the line of Aidan Hall with KBW.

Aidan Hall: Just wondering if you could provide us with some color on the trajectory of fee rates by asset class, just given some of the mix shift that's taking place in the asset base. And then it was nice to see the contribution of performance fees this quarter.

I know it's tough to predict, but should we be thinking about that as a more normal contributor on a go-forward basis? Have you seen some stronger performance from your products?

Jen Dardis: Sure. So I mean we've spoken in the past, on average, if we take a step back, I mean a number of our products, whether it's by different vehicles or by larger institutional clients, we tend to see about 1% to 1.5% fee compression annually. Again, that can be higher or lower depending on specific choices we make about fees.

But certainly the direction of travel has been that when clients can take advantage of scale, they will get discounts for the pricing and when they come in and we have a number of large relationships that we manage as part of our strategic relationships.

With regard to performance fees, this was one-off. I mean there are a handful of equity products that we have, not a significant number that have fee arrangements. Of course, within the OHA product range, there are more. This one in particular, this quarter related to a handful of equity products on the T. Rowe side.

Rob Sharps: Yes. We use our scale to invest in our value proposition. And I would say that within asset classes, the trend of fee compression has -- is something that we've navigated for a very long time and is comparatively stable right now.

A few years ago, we made a substantial investment in fee competitiveness of the target date funds and called that out specifically at the time. But I would say, overall, I feel very good about our value proposition and our fee competitiveness right now.

So where you see fee compression, I think it would be natural where you have a migration from funds to trust where you have more rapid growth in some lower fee vehicles or kind of ultimately, there are puts and takes.

I'd say market movement also drives a fair bit of this from quarter-to-quarter. But I don't think that there's anything unusual or that I would call out with regard to the fee environment right now.

Eric Veiel: Yes. This is Eric. The one other thing I would add to that is that even within asset class, again, client preference is an important part of that. And when you have really strong performance in something like Structured Research in the U.S. equity business, which competes directly with passive but at a better fee versus passive, but lower than our overall average fee, you'll see some mix within asset class, but that's really a good business for us and is a really strong endorsement of our underlying research capabilities.

Operator: And this completes our Q&A portion. I'll now turn the call back over to Mr. Rob Sharps for closing remarks.

Rob Sharps: All right. Great. Well we appreciate your questions and your interest in T. Rowe Price. Thank you for joining us this morning. Hopefully, you found Dee's retirement update informative.

We will continue to evaluate special topics to integrate into future calls, so we can give you a deeper understanding of our business. So again, thanks for joining us, and have a good day.

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