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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2020  
OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File Number: 000-32191**

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**T. ROWE PRICE GROUP, INC.**  
(Exact name of registrant as specified in its charter)

**Maryland**  
(State of incorporation)

**52-2264646**  
(I.R.S. Employer Identification No.)

**100 East Pratt Street, Baltimore, Maryland 21202**  
(Address, including Zip Code, of principal executive offices)

**(410) 345-2000**  
(Registrant's telephone number, including area code)

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**Common stock, \$.20 par value per share**  
(title of security)

**TROW**  
(ticker symbol)

**The NASDAQ Stock Market LLC**  
(Name of exchange on which registered)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/> Accelerated filer	<input type="checkbox"/>
	<input type="checkbox"/> Smaller reporting company	<input type="checkbox"/>
Non-accelerated filer (do not check if smaller reporting company)	Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

The number of shares outstanding of the issuer's common stock (\$.20 par value), as of the latest practicable date, October 27, 2020, is 226,432,807.

The exhibit index is at Item 6 on page 42.

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in millions, except share data)

	9/30/2020	12/31/2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,228.2	\$ 1,781.8
Accounts receivable and accrued revenue	714.8	646.6
Investments	3,030.8	2,939.8
Assets of consolidated T. Rowe Price investment products (\$2,255.3 million at September 30, 2020 and \$1,975.3 million at December 31, 2019, related to variable interest entities)	2,442.3	2,276.9
Operating lease assets	139.2	110.8
Property and equipment, net	681.9	674.4
Goodwill	665.7	665.7
Other assets	231.7	234.4
<b>Total assets</b>	<b>\$ 10,134.6</b>	<b>\$ 9,330.4</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 186.9	\$ 214.5
Liabilities of consolidated T. Rowe Price investment products (\$36.8 million at September 30, 2020 and \$27.0 million at December 31, 2019, related to variable interest entities)	46.5	39.2
Operating lease liabilities	175.3	146.3
Accrued compensation and related costs	583.3	112.1
Supplemental savings plan liability	607.2	563.4
Income taxes payable	66.7	31.8
<b>Total liabilities</b>	<b>1,665.9</b>	<b>1,107.3</b>
Commitments and contingent liabilities		
Redeemable non-controlling interests	1,340.2	1,121.0
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, undesignated, \$.20 par value – authorized and unissued 20,000,000 shares	—	—
Common stock, \$.20 par value—authorized 750,000,000; issued 226,375,000 shares at September 30, 2020 and 235,214,000 at December 31, 2019	45.3	47.0
Additional capital in excess of par value	654.6	654.6
Retained earnings	6,471.3	6,443.5
Accumulated other comprehensive loss	(42.7)	(43.0)
<b>Total permanent stockholders' equity</b>	<b>7,128.5</b>	<b>7,102.1</b>
<b>Total liabilities, redeemable non-controlling interests, and permanent stockholders' equity</b>	<b>\$ 10,134.6</b>	<b>\$ 9,330.4</b>

The accompanying notes are an integral part of these statements.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(in millions, except per-share amounts)

	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
<b>Revenues</b>				
Investment advisory fees	\$ 1,469.3	\$ 1,303.4	\$ 4,090.9	\$ 3,767.8
Administrative, distribution, and servicing fees	126.5	123.3	382.9	381.4
Net revenues	1,595.8	1,426.7	4,473.8	4,149.2
<b>Operating expenses</b>				
Compensation and related costs	552.3	466.3	1,542.0	1,441.0
Distribution and servicing	73.5	64.5	201.2	195.3
Advertising and promotion	14.2	17.1	52.5	58.5
Product-related costs	36.8	38.0	118.0	115.6
Technology, occupancy, and facility costs	115.6	106.5	332.3	309.5
General, administrative, and other	74.5	75.2	238.0	222.6
Total operating expenses	866.9	767.6	2,484.0	2,342.5
Net operating income	728.9	659.1	1,989.8	1,806.7
<b>Non-operating income (loss)</b>				
Net gains on investments	84.6	32.1	100.6	194.0
Net gains on consolidated investment products	101.2	11.6	13.3	176.3
Other income (loss)	5.8	(.7)	(7.5)	—
Total non-operating income	191.6	43.0	106.4	370.3
Income before income taxes	920.5	702.1	2,096.2	2,177.0
Provision for income taxes	221.9	157.0	502.5	522.0
Net income	698.6	545.1	1,593.7	1,655.0
Less: net income (loss) attributable to redeemable non-controlling interests	55.4	(.8)	4.4	69.0
Net income attributable to T. Rowe Price Group	\$ 643.2	\$ 545.9	\$ 1,589.3	\$ 1,586.0
<b>Earnings per share on common stock of T. Rowe Price Group</b>				
Basic	\$ 2.75	\$ 2.26	\$ 6.73	\$ 6.55
Diluted	\$ 2.73	\$ 2.23	\$ 6.66	\$ 6.47

The accompanying notes are an integral part of these statements.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in millions)

	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
Net income	\$ 698.6	\$ 545.1	\$ 1,593.7	\$ 1,655.0
Other comprehensive income (loss)				
Currency translation adjustments				
Consolidated T. Rowe Price investment products - variable interest entities	33.4	(30.1)	24.2	(32.2)
Reclassification (gains) losses recognized in non-operating income upon deconsolidation of certain T. Rowe Price investment products	—	.1	(.1)	(.1)
Total currency translation adjustments of consolidated T. Rowe Price investment products - variable interest entities	33.4	(30.0)	24.1	(32.3)
Equity method investments	.1	(1.0)	(9.4)	5.4
Other comprehensive income (loss) before income taxes	33.5	(31.0)	14.7	(26.9)
Net deferred tax benefits (income taxes)	(3.2)	3.4	(.5)	2.5
Total other comprehensive income (loss)	30.3	(27.6)	14.2	(24.4)
Total comprehensive income	728.9	517.5	1,607.9	1,630.6
Less: comprehensive income (loss) attributable to redeemable non-controlling interests	76.2	(18.2)	18.3	51.3
Total comprehensive income attributable to T. Rowe Price Group	\$ 652.7	\$ 535.7	\$ 1,589.6	\$ 1,579.3

The accompanying notes are an integral part of these statements.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)

	Nine months ended	
	9/30/2020	9/30/2019
<b>Cash flows from operating activities</b>		
Net income	\$ 1,593.7	\$ 1,655.0
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	144.0	131.7
Stock-based compensation expense	164.5	136.1
Net gains recognized on investments	(75.3)	(137.3)
Net investments in T. Rowe Price investment products used to economically hedge supplemental savings plan liability	(19.1)	(20.5)
Net change in securities held by consolidated T. Rowe Price investment products	(350.8)	(688.1)
Other changes in assets and liabilities	459.9	423.8
<b>Net cash provided by operating activities</b>	<u>1,916.9</u>	<u>1,500.7</u>
<b>Cash flows from investing activities</b>		
Purchases of T. Rowe Price investment products	(240.3)	(35.0)
Dispositions of T. Rowe Price investment products	381.9	112.0
Net cash of T. Rowe Price investment products on deconsolidation	(49.1)	(8.3)
Additions to property and equipment	(155.4)	(148.9)
Other investing activity	9.8	3.5
<b>Net cash used in investing activities</b>	<u>(53.1)</u>	<u>(76.7)</u>
<b>Cash flows from financing activities</b>		
Repurchases of common stock	(1,158.5)	(576.0)
Common share issuances under stock-based compensation plans	76.2	116.3
Dividends paid to common stockholders of T. Rowe Price Group	(635.7)	(550.4)
Net subscriptions received from redeemable non-controlling interest holders	298.7	387.1
<b>Net cash used in financing activities</b>	<u>(1,419.3)</u>	<u>(623.0)</u>
Effect of exchange rate changes on cash and cash equivalents of consolidated T. Rowe Price investment products	3.4	(2.2)
<b>Net change in cash and cash equivalents during period</b>	447.9	798.8
Cash and cash equivalents at beginning of period, including \$76.5 million at December 31, 2019, and \$70.1 million at December 31, 2018, held by consolidated T. Rowe Price investment products	1,858.3	1,495.3
<b>Cash and cash equivalents at end of period, including \$78.0 million at September 30, 2020, and \$80.9 million at September 30, 2019, held by consolidated T. Rowe Price investment products</b>	<u>\$ 2,306.2</u>	<u>\$ 2,294.1</u>

The accompanying notes are an integral part of these statements.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(shares in thousands; dollars in millions)

	Three months ended 9/30/2020						
	Common shares outstanding	Common stock	Additional capital in excess of par value	Retained earnings	AOCI <sup>(1)</sup>	Total stockholders' equity	Redeemable non-controlling interests
Balances at June 30, 2020	226,990	\$ 45.4	\$ 654.6	\$6,102.9	\$ (52.2)	\$ 6,750.7	\$ 1,090.1
Net income	—	—	—	643.2	—	643.2	55.4
Other comprehensive income (loss), net of tax	—	—	—	—	9.5	9.5	20.8
Dividends declared (\$0.90 per share)	—	—	—	(210.2)	—	(210.2)	—
Shares issued upon option exercises	492	.1	25.9	—	—	26.0	—
Restricted shares issued, net of shares withheld for taxes	—	—	—	—	—	—	—
Net shares issued upon vesting of restricted stock units	17	—	(1.6)	—	—	(1.6)	—
Stock-based compensation expense	—	—	52.8	—	—	52.8	—
Restricted stock units issued as dividend equivalents	—	—	.1	(.1)	—	—	—
Common shares repurchased	(1,124)	(.2)	(77.2)	(64.5)	—	(141.9)	—
Net subscriptions into T. Rowe Price investment products	—	—	—	—	—	—	217.9
Net deconsolidations of T. Rowe Price investment products	—	—	—	—	—	—	(44.0)
Balances at September 30, 2020	<u>226,375</u>	<u>\$ 45.3</u>	<u>\$ 654.6</u>	<u>\$6,471.3</u>	<u>\$ (42.7)</u>	<u>\$ 7,128.5</u>	<u>\$ 1,340.2</u>

	Three months ended 9/30/2019						
	Common shares outstanding	Common stock	Additional capital in excess of par value	Retained earnings	AOCI <sup>(1)</sup>	Total stockholders' equity	Redeemable non-controlling interests
Balances at June 30, 2019	235,518	\$ 47.1	\$ 654.6	\$5,915.9	\$ (38.5)	\$ 6,579.1	\$ 1,012.3
Net income	—	—	—	545.9	—	545.9	(.8)
Other comprehensive income (loss), net of tax	—	—	—	—	(10.2)	(10.2)	(17.4)
Dividends declared (\$0.76 per share)	—	—	—	(182.7)	—	(182.7)	—
Shares issued upon option exercises	782	.1	36.4	—	—	36.5	—
Restricted shares issued, net of shares withheld for taxes	—	—	—	—	—	—	—
Net shares issued upon vesting of restricted stock units	18	—	(1.2)	—	—	(1.2)	—
Forfeiture of restricted awards	(3)	—	—	—	—	—	—
Stock-based compensation expense	—	—	45.5	—	—	45.5	—
Restricted stock units issued as dividend equivalents	—	—	—	—	—	—	—
Common shares repurchased	(1,613)	(.3)	(80.7)	(92.1)	—	(173.1)	—
Net subscriptions into T. Rowe Price investment products	—	—	—	—	—	—	181.1
Net deconsolidations of T. Rowe Price investment products	—	—	—	—	—	—	(72.3)
Balances at September 30, 2019	<u>234,702</u>	<u>\$ 46.9</u>	<u>\$ 654.6</u>	<u>\$6,187.0</u>	<u>\$ (48.7)</u>	<u>\$ 6,839.8</u>	<u>\$ 1,102.9</u>

<sup>(1)</sup> Accumulated other comprehensive income.

The accompanying notes are an integral part of these statements.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(shares in thousands; dollars in millions)

	Nine months ended 9/30/2020						
	Common shares outstanding	Common stock	Additional capital in excess of par value	Retained earnings	AOC <sup>(1)</sup>	Total stockholders' equity	Redeemable non-controlling interests
Balances at December 31, 2019	235,214	\$ 47.0	\$ 654.6	\$ 6,443.5	\$ (43.0)	\$ 7,102.1	\$ 1,121.0
Net income	—	—	—	1,589.3	—	1,589.3	4.4
Other comprehensive income (loss), net of tax	—	—	—	—	.3	.3	13.9
Dividends declared (\$2.70 per share)	—	—	—	(635.3)	—	(635.3)	—
Shares issued upon option exercises	1,856	.4	82.8	—	—	83.2	—
Restricted shares issued, net of shares withheld for taxes	8	—	—	—	—	—	—
Shares issued upon vesting of restricted stock units, net of shares withheld for taxes	60	—	(4.8)	—	—	(4.8)	—
Stock-based compensation expense	—	—	164.3	—	—	164.3	—
Restricted stock units issued as dividend equivalents	—	—	.2	(.2)	—	—	—
Common shares repurchased	(10,763)	(2.1)	(242.5)	(926.0)	—	(1,170.6)	—
Net subscriptions into T. Rowe Price investment products	—	—	—	—	—	—	307.8
Net deconsolidations of T. Rowe Price investment products	—	—	—	—	—	—	(106.9)
Balances at September 30, 2020	<u>226,375</u>	<u>\$ 45.3</u>	<u>\$ 654.6</u>	<u>\$ 6,471.3</u>	<u>\$ (42.7)</u>	<u>\$ 7,128.5</u>	<u>\$ 1,340.2</u>

	Nine months ended 9/30/2019						
	Common shares outstanding	Common stock	Additional capital in excess of par value	Retained earnings	AOC <sup>(1)</sup>	Total stockholders' equity	Redeemable non-controlling interests
Balances at December 31, 2018	238,069	\$ 47.6	\$ 654.6	\$ 5,464.1	\$ (42.0)	\$ 6,124.3	\$ 740.3
Net income	—	—	—	1,586.0	—	1,586.0	69.0
Other comprehensive income (loss), net of tax	—	—	—	—	(6.7)	(6.7)	(17.7)
Dividends declared (\$2.28 per share)	—	—	—	(549.9)	—	(549.9)	—
Shares issued upon option exercises	2,277	.4	118.9	—	—	119.3	—
Restricted shares issued, net of shares withheld for taxes	7	—	(.1)	—	—	(.1)	—
Shares issued upon vesting of restricted stock units, net of shares withheld for taxes	51	—	(2.6)	—	—	(2.6)	—
Forfeiture of restricted awards	(10)	—	—	—	—	—	—
Stock-based compensation expense	—	—	136.2	—	—	136.2	—
Restricted stock units issued as dividend equivalents	—	—	.1	(.1)	—	—	—
Common shares repurchased	(5,692)	(1.1)	(252.5)	(313.1)	—	(566.7)	—
Net subscriptions into T. Rowe Price investment products	—	—	—	—	—	—	392.7
Net deconsolidations of T. Rowe Price investment products	—	—	—	—	—	—	(81.4)
Balances at September 30, 2019	<u>234,702</u>	<u>\$ 46.9</u>	<u>\$ 654.6</u>	<u>\$ 6,187.0</u>	<u>\$ (48.7)</u>	<u>\$ 6,839.8</u>	<u>\$ 1,102.9</u>

<sup>(1)</sup> Accumulated other comprehensive income.

The accompanying notes are an integral part of these statements.

## **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **NOTE 1 – THE COMPANY AND BASIS OF PREPARATION.**

T. Rowe Price Group Inc. derives its consolidated revenues and net income primarily from investment advisory services that its subsidiaries provide to individual and institutional investors in the T. Rowe Price U.S. mutual funds ("U.S. mutual funds"), subadvised funds, separately managed accounts, collective investment trusts, and other T. Rowe Price products. The other T. Rowe Price products include: open-ended investment products offered to investors outside the U.S., and products offered through variable annuity life insurance plans in the U.S. We also provide certain investment advisory clients with related administrative services, including distribution, mutual fund transfer agent, accounting, and shareholder services; participant recordkeeping and transfer agent services for defined contribution retirement plans; brokerage; and trust services.

Investment advisory revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management impact our revenues and results of operations.

#### **BASIS OF PRESENTATION.**

These unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. These principles require the use of estimates and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of our results for the interim periods presented. All such adjustments are of a normal recurring nature. Actual results may vary from our estimates. Certain prior year amounts have been reclassified to conform to the 2020 presentation.

The unaudited interim financial information contained in these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in our 2019 Annual Report.

#### **NEW ACCOUNTING GUIDANCE.**

We adopted Accounting Standards Update No. 2018-15 — Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract on January 1, 2020 using the prospective method of adoption. This update required implementation costs incurred in cloud computing arrangements to be deferred and recognized over the term of the hosting arrangement. A hosting arrangement is an agreement that allows customers, like us, to access and use software on an as-needed basis without having possession of the software. Beginning on January 1, 2020, we are required to defer such qualifying implementation costs. As of September 30, 2020, we capitalized an immaterial amount of implementation costs incurred in a cloud computing arrangement. Accordingly, the adoption of this guidance did not have a material impact on our consolidated balance sheets or our consolidated statements of income.

#### **NEWLY ISSUED BUT NOT YET ADOPTED ACCOUNTING GUIDANCE**

We have considered all other newly issued accounting guidance that is applicable to our operations and the preparation of our unaudited condensed consolidated statements, including those we have not yet adopted. We do not believe that any such guidance has or will have a material effect on our financial position or results of operations.

#### **U.S. ECONOMIC RELIEF LEGISLATION**

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief and Economic Security ("CARES") Act. The CARES Act provides economic relief to eligible businesses and individuals impacted by the novel coronavirus pandemic. The CARES Act's provisions will not have a material impact on our financial position and results of operations.

**NOTE 2 – INFORMATION ABOUT RECEIVABLES, REVENUES, AND SERVICES.**

Revenues earned during the three- and nine-month periods ended September 30, 2020 and 2019 under agreements with clients include:

(in millions)	Three months ended 9/30/2020				Three months ended 9/30/2019			
	Administrative, distribution, and servicing fees				Administrative, distribution, and servicing fees			
	Investment advisory fees	Administrative fees	Distribution and servicing fees	Net revenues	Investment advisory fees	Administrative fees	Distribution and servicing fees	Net revenues
U.S. mutual funds	\$ 939.5	\$ 72.4	\$ 28.5	\$ 1,040.4	\$ 881.0	\$ 69.0	\$ 30.1	\$ 980.1
Subadvised funds, separate accounts, collective investment trusts, and other investment products	529.8	—	—	529.8	422.4	—	—	422.4
Other clients	—	25.6	—	25.6	—	24.2	—	24.2
	<u>\$ 1,469.3</u>	<u>\$ 98.0</u>	<u>\$ 28.5</u>	<u>\$ 1,595.8</u>	<u>\$ 1,303.4</u>	<u>\$ 93.2</u>	<u>\$ 30.1</u>	<u>\$ 1,426.7</u>

(in millions)	Nine months ended 9/30/2020				Nine months ended 9/30/2019			
	Administrative, distribution, and servicing fees				Administrative, distribution, and servicing fees			
	Investment advisory fees	Administrative fees	Distribution and servicing fees	Net revenues	Investment advisory fees	Administrative fees	Distribution and servicing fees	Net revenues
U.S. mutual funds	\$ 2,638.8	\$ 219.0	\$ 82.1	\$ 2,939.9	\$ 2,557.6	\$ 215.3	\$ 90.4	\$ 2,863.3
Subadvised funds, separate accounts, collective investment trusts, and other investment products	1,452.1	—	—	1,452.1	1,210.2	—	—	1,210.2
Other clients	—	81.8	—	81.8	—	75.7	—	75.7
	<u>\$ 4,090.9</u>	<u>\$ 300.8</u>	<u>\$ 82.1</u>	<u>\$ 4,473.8</u>	<u>\$ 3,767.8</u>	<u>\$ 291.0</u>	<u>\$ 90.4</u>	<u>\$ 4,149.2</u>

Total net revenues earned from our related parties, specifically T. Rowe Price investment products, aggregate \$1,302.3 million and \$1,180.9 million for the three months ended September 30, 2020 and 2019, respectively. Total net revenues earned during the nine months ended September 30, 2020 and 2019 aggregate \$3,652.8 million and \$3,421.9 million, respectively. Accounts receivable from these products aggregate to \$442.0 million at September 30, 2020, and \$424.8 million at December 31, 2019.

In the second quarter of 2020, we changed our fee structure of the target date retirement funds such that our investment advisory fee revenue is now earned at the target date retirement fund level rather than at the underlying mutual fund level. As a result, we have modified our investment advisory fee and assets under management presentation below to separately breakout the fees earned from clients and related assets under management of our multi-asset portfolios. All prior periods have been recast to conform to this new presentation and to provide comparability.

The following table details the investment advisory fees earned from clients by their underlying asset class.

(in millions)	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
<b>U.S. mutual funds</b>				
Equity	\$ 636.3	\$ 570.2	\$ 1,750.6	\$ 1,641.4
Fixed income, including money market	66.6	70.7	205.1	208.6
Multi-asset	236.6	240.1	683.1	707.6
	<u>939.5</u>	<u>881.0</u>	<u>2,638.8</u>	<u>2,557.6</u>
<b>Subadvised funds, separate accounts, collective investment trusts, and other investment products</b>				
Equity	339.6	259.5	924.7	751.0
Fixed income, including money market	38.4	39.7	110.3	116.0
Multi-asset	151.8	123.2	417.1	343.2
	<u>529.8</u>	<u>422.4</u>	<u>1,452.1</u>	<u>1,210.2</u>
<b>Total</b>	<u>\$ 1,469.3</u>	<u>\$ 1,303.4</u>	<u>\$ 4,090.9</u>	<u>\$ 3,767.8</u>

The following table summarizes the assets under management on which we earn investment advisory fees.

(in billions)	Average during		Average during		As of	
	Three months ended		Nine months ended			
	9/30/2020	9/30/2019	9/30/2020	9/30/2019	9/30/2020	12/31/2019
<b>U.S. mutual funds</b>						
Equity	\$ 433.4	\$ 384.4	\$ 398.9	\$ 371.5	\$ 442.3	\$ 407.1
Fixed income, including money market	78.1	73.3	76.0	71.3	77.6	73.7
Multi-asset	197.3	192.8	189.1	190.4	196.3	201.9
	<u>708.8</u>	<u>650.5</u>	<u>664.0</u>	<u>633.2</u>	<u>716.2</u>	<u>682.7</u>
<b>Subadvised funds, separate accounts, collective investment trusts, and other investment products</b>						
Equity	338.8	262.4	303.3	251.1	343.5	291.7
Fixed income, including money market	82.4	80.9	80.3	78.9	83.5	74.2
Multi-asset	162.9	136.4	151.3	128.3	167.2	158.2
	<u>584.1</u>	<u>479.7</u>	<u>534.9</u>	<u>458.3</u>	<u>594.2</u>	<u>524.1</u>
<b>Total</b>	<u>\$ 1,292.9</u>	<u>\$ 1,130.2</u>	<u>\$ 1,198.9</u>	<u>\$ 1,091.5</u>	<u>\$ 1,310.4</u>	<u>\$ 1,206.8</u>

Investors that we serve are primarily domiciled in the U.S.; investment advisory clients outside the U.S. account for 8.7% and 6.9% of our assets under management at September 30, 2020, and December 31, 2019, respectively.

**NOTE 3 – INVESTMENTS.**

The carrying values of our investments that are not part of the consolidated T. Rowe Price investment products are as follows:

(in millions)	9/30/2020	12/31/2019
Investments held at fair value		
T. Rowe Price investment products - discretionary investments	\$ 1,005.6	\$ 1,221.8
T. Rowe Price investment products - seed capital	160.0	181.1
T. Rowe Price investment products - supplemental savings plan liability economic hedges	565.3	561.1
Investment partnerships and other investments	99.4	99.7
Equity method investments		
T. Rowe Price investment products - discretionary investments	829.1	610.0
T. Rowe Price investment products - seed capital	166.2	95.6
T. Rowe Price investment products - supplemental savings plan liability economic hedges	40.4	—
26% interest in UTI Asset Management Company Limited (India)	158.5	164.5
Investment partnerships and other investments	5.3	5.0
U.S. Treasury note	1.0	1.0
Total	<u>\$ 3,030.8</u>	<u>\$ 2,939.8</u>

The investment partnerships are carried at fair value using net asset value (“NAV”) per share as a practical expedient. Our interests in these partnerships are generally not redeemable and are subject to significant restrictions on transferability. The underlying investments of these partnerships have contractual terms through 2029, though we may receive distributions of liquidating assets over a longer term. The investment strategies of these partnerships include growth equity, buyout, venture capital, and real estate.

During the three- and nine-months ended September 30, 2020, net gains on investments included \$75.5 million and \$53.6 million, respectively, of net unrealized gains related to investments held at fair value that were still held at September 30, 2020. For the same periods of 2019, the net gains on investments included \$4.8 million and \$84.2 million, respectively, of net unrealized gains on investments held at fair value that were still held at September 30, 2019.

During the nine months ended September 30, 2020 and 2019, certain T. Rowe Price investment products in which we provided initial seed capital at the time of formation were deconsolidated, as we no longer had a controlling interest. Depending on our ownership interest, we are now reporting our residual interests in these T. Rowe Price investment products as either an equity method investment or an investment held at fair value. Additionally, during the nine months ended September 30, 2019, certain T. Rowe Price investment products that were being accounted for as equity method investments were consolidated, as we regained a controlling interest. The net impact of these changes on our unaudited condensed consolidated balance sheets and statements of income as of the dates the portfolios were deconsolidated or reconsolidated is detailed below.

(in millions)	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
Net increase (decrease) in assets of consolidated T. Rowe Price investment products	\$ (132.2)	\$ (113.5)	\$ (278.4)	\$ (169.6)
Net decrease in liabilities of consolidated T. Rowe Price investment products	\$ (4.0)	\$ (9.8)	\$ (7.6)	\$ (11.0)
Net increase (decrease) in redeemable non-controlling interests	\$ (44.0)	\$ (72.3)	\$ (106.9)	\$ (81.4)
Gains (losses) recognized upon deconsolidation	\$ —	\$ (.1)	\$ .1	\$ .1

The gains or losses recognized upon deconsolidation were the result of reclassifying currency translation adjustments accumulated on certain T. Rowe Price investment products with non-USD functional currencies from accumulated other comprehensive income to non-operating income.

In October 2020, UTI Asset Management Company Limited (India), one of our equity method investments, held an initial public offering in India. As part of the offering, we sold a portion of our 26% interest and recorded a net gain on the sale of approximately \$3.5 million in the fourth quarter of 2020. Subsequent to the sale, we have an ownership interest of 23% in UTI Asset Management Company Limited (India).

#### **VARIABLE INTEREST ENTITIES.**

Our investments at September 30, 2020 and December 31, 2019, include interests in variable interest entities that we do not consolidate as we are not deemed the primary beneficiary. Our maximum risk of loss related to our involvement with these entities is as follows:

(in millions)	9/30/2020	12/31/2019
Investment carrying values	\$ 118.9	\$ 156.0
Unfunded capital commitments	13.2	18.1
Uncollected investment advisory and administrative fees	14.0	10.5
	<u>\$ 146.1</u>	<u>\$ 184.6</u>

The unfunded capital commitments totaling \$13.2 million at September 30, 2020, and \$18.1 million at December 31, 2019, relate primarily to the investment partnerships in which we have an existing investment. In addition to such amounts, a percentage of prior distributions may be called under certain circumstances.

#### **NOTE 4 – FAIR VALUE MEASUREMENTS.**

We determine the fair value of our cash equivalents and investments held at fair value using the following broad levels of inputs as defined by related accounting standards:

Level 1 – quoted prices in active markets for identical securities.

Level 2 – observable inputs other than Level 1 quoted prices including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk. These inputs are based on market data obtained from independent sources.

Level 3 – unobservable inputs reflecting our own assumptions based on the best information available. We do not value any investments using Level 3 inputs.

These levels are not necessarily an indication of the risk or liquidity associated with our investments. The following table summarizes our investments that are recognized in our unaudited condensed consolidated balance sheets using fair value measurements determined based on the differing levels of inputs. This table excludes investments held by the consolidated T. Rowe Price investment products which are presented separately on our unaudited condensed consolidated balance sheets and are detailed in Note 5.

(in millions)	9/30/2020		12/31/2019	
	Level 1	Level 2	Level 1	Level 2
Cash equivalents held in T. Rowe Price money market funds	\$ 1,870.9	\$ —	\$ 1,355.6	\$ —
T. Rowe Price investment products - discretionary investments	1,005.6	—	1,221.8	—
T. Rowe Price investment products - seed capital	149.7	10.3	171.2	9.9
T. Rowe Price investment products - supplemental savings plan liability economic hedges	565.3	—	561.1	—
Other investments	2.0	.6	—	—
Total	<u>\$ 3,593.5</u>	<u>\$ 10.9</u>	<u>\$ 3,309.7</u>	<u>\$ 9.9</u>

As required by the accounting guidance, the fair value hierarchy level table above does not include the investment partnerships and other investments for which fair value is estimated using their NAV per share as a practical

expedient. The carrying value of these investments as disclosed in Note 3 were \$96.8 million at September 30, 2020, and \$99.7 million at December 31, 2019.

#### NOTE 5 – CONSOLIDATED T. ROWE PRICE INVESTMENT PRODUCTS.

The T. Rowe Price investment products that we consolidate in our unaudited condensed consolidated financial statements are generally those products we provided initial seed capital at the time of their formation and have a controlling interest. Our U.S. mutual funds are considered voting interest entities, while those regulated outside the U.S. are considered variable interest entities.

The following table details the net assets of the consolidated T. Rowe Price investment products:

(in millions)	9/30/2020			12/31/2019		
	Voting interest entities	Variable interest entities	Total	Voting interest entities	Variable interest entities	Total
Cash and cash equivalents <sup>(1)</sup>	\$ 5.2	\$ 72.8	\$ 78.0	\$ 9.9	\$ 66.6	\$ 76.5
Investments <sup>(2)</sup>	178.8	2,150.3	2,329.1	281.1	1,891.3	2,172.4
Other assets	3.0	32.2	35.2	10.6	17.4	28.0
Total assets	187.0	2,255.3	2,442.3	301.6	1,975.3	2,276.9
Liabilities	9.7	36.8	46.5	12.2	27.0	39.2
Net assets	<u>\$ 177.3</u>	<u>\$ 2,218.5</u>	<u>\$ 2,395.8</u>	<u>\$ 289.4</u>	<u>\$ 1,948.3</u>	<u>\$ 2,237.7</u>
Attributable to T. Rowe Price Group	\$ 126.2	\$ 929.4	\$ 1,055.6	\$ 199.6	\$ 917.1	\$ 1,116.7
Attributable to redeemable non-controlling interests	51.1	1,289.1	1,340.2	89.8	1,031.2	1,121.0
	<u>\$ 177.3</u>	<u>\$ 2,218.5</u>	<u>\$ 2,395.8</u>	<u>\$ 289.4</u>	<u>\$ 1,948.3</u>	<u>\$ 2,237.7</u>

<sup>(1)</sup> Cash and cash equivalents includes \$5.1 million at September 30, 2020, and \$9.1 million at December 31, 2019, of T. Rowe Price money market mutual funds.

<sup>(2)</sup> Investments includes \$18.9 million at September 30, 2020, and \$40.2 million at December 31, 2019 of other T. Rowe Price investment products.

Although we can redeem our net interest in these consolidated T. Rowe Price investment products at any time, we cannot directly access or sell the assets held by these products to obtain cash for general operations. Additionally, the assets of these investment products are not available to our general creditors.

Since third party investors in these investment products have no recourse to our credit, our overall risk related to the net assets of consolidated T. Rowe Price investment products is limited to valuation changes associated with our net interest. We, however, are required to recognize the valuation changes associated with all underlying investments held by these products in our unaudited condensed consolidated statements of income and disclose the portion attributable to third party investors as net income attributable to redeemable non-controlling interests.

The operating results of the consolidated T. Rowe Price investment products for the three- and nine-months ended September 30, 2020 and 2019, are reflected in our unaudited condensed consolidated statements of income as follows:

(in millions)	Three months ended					
	9/30/2020			9/30/2019		
	Voting interest entities	Variable interest entities	Total	Voting interest entities	Variable interest entities	Total
Operating expenses reflected in net operating income	\$ (.7)	\$ (3.7)	\$ (4.4)	\$ (.6)	\$ (3.1)	\$ (3.7)
Net investment income (loss) reflected in non-operating income (loss)	13.1	88.1	101.2	1.5	10.1	11.6
Impact on income before taxes	\$ 12.4	\$ 84.4	\$ 96.8	\$ .9	\$ 7.0	\$ 7.9
Net income (loss) attributable to T. Rowe Price Group	\$ 7.0	\$ 34.4	\$ 41.4	\$ .7	\$ 8.0	\$ 8.7
Net income (loss) attributable to redeemable non-controlling interests	5.4	50.0	55.4	.2	(1.0)	(.8)
	\$ 12.4	\$ 84.4	\$ 96.8	\$ .9	\$ 7.0	\$ 7.9

(in millions)	Nine months ended					
	9/30/2020			9/30/2019		
	Voting interest entities	Variable interest entities	Total	Voting interest entities	Variable interest entities	Total
Operating expenses reflected in net operating income	\$ (1.2)	\$ (10.5)	\$ (11.7)	\$ (1.6)	\$ (9.0)	\$ (10.6)
Net investment income (loss) reflected in non-operating income	(5.7)	19.0	13.3	20.9	155.4	176.3
Impact on income before taxes	\$ (6.9)	\$ 8.5	\$ 1.6	\$ 19.3	\$ 146.4	\$ 165.7
Net income (loss) attributable to T. Rowe Price Group	\$ (2.7)	\$ (.1)	\$ (2.8)	\$ 14.6	\$ 82.1	\$ 96.7
Net income (loss) attributable to redeemable non-controlling interests	(4.2)	8.6	4.4	4.7	64.3	69.0
	\$ (6.9)	\$ 8.5	\$ 1.6	\$ 19.3	\$ 146.4	\$ 165.7

The operating expenses of the consolidated investment products are reflected in other operating expenses. In preparing our unaudited condensed consolidated financial statements, we eliminated operating expenses of \$2.7 million and \$2.6 million for the three months ended September 30, 2020 and 2019, respectively, against the investment advisory and administrative fees earned from these products. Operating expenses eliminated for the nine months ended September 30, 2020 and 2019, were \$7.3 million and \$6.3 million, respectively. The net investment income (loss) reflected in non-operating income (loss) includes dividend and interest income and realized and unrealized gains and losses on the underlying securities held by the consolidated T. Rowe Price investment products.

The table below details the impact of these consolidated investment products on the individual lines of our unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2020 and 2019.

(in millions)	Nine months ended					
	9/30/2020			9/30/2019		
	Voting interest entities	Variable interest entities	Total	Voting interest entities	Variable interest entities	Total
Net cash provided by (used in) operating activities	\$ (105.7)	\$ (241.0)	\$ (346.7)	\$ (15.1)	\$ (508.4)	\$ (523.5)
Net cash used in investing activities	(23.4)	(25.7)	(49.1)	(7.4)	(.9)	(8.3)
Net cash provided by in financing activities	124.4	269.5	393.9	15.5	529.3	544.8
Effect of exchange rate changes on cash and cash equivalents of consolidated T. Rowe Price investment products	—	3.4	3.4	—	(2.2)	(2.2)
Net change in cash and cash equivalents during period	(4.7)	6.2	1.5	(7.0)	17.8	10.8
Cash and cash equivalents at beginning of year	9.9	66.6	76.5	18.5	51.6	70.1
Cash and cash equivalents at end of period	\$ 5.2	\$ 72.8	\$ 78.0	\$ 11.5	\$ 69.4	\$ 80.9

The net cash provided by financing activities during the nine months ended September 30, 2020 and 2019 includes \$95.2 million and \$157.7 million, respectively, of net subscriptions we made into the consolidated T. Rowe Price investment products, net of dividends received. These cash flows were eliminated in consolidation.

### **FAIR VALUE MEASUREMENTS.**

We determine the fair value of investments held by consolidated T. Rowe Price investment products using the following broad levels of inputs as defined by related accounting standards:

Level 1 – quoted prices in active markets for identical securities.

Level 2 – observable inputs other than Level 1 quoted prices including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk. These inputs are based on market data obtained from independent sources.

Level 3 – unobservable inputs reflecting our own assumptions based on the best information available. The value of investments using Level 3 inputs is insignificant.

These levels are not necessarily an indication of the risk or liquidity associated with these investment holdings. The following table summarizes the investment holdings held by our consolidated T. Rowe Price investment products using fair value measurements determined based on the differing levels of inputs.

(in millions)	9/30/2020		12/31/2019	
	Level 1	Level 2	Level 1	Level 2
<b>Assets</b>				
Cash equivalents	\$ 5.1	\$ —	\$ 9.1	\$ 1.1
Equity securities	277.0	761.6	162.8	724.5
Fixed income securities	—	1,262.4	—	1,248.6
Other investments	2.7	25.4	2.7	33.8
	\$ 284.8	\$ 2,049.4	\$ 174.6	\$ 2,008.0
<b>Liabilities</b>				
	\$ (.2)	\$ (12.8)	\$ (.4)	\$ (11.2)

### **NOTE 6 – STOCKHOLDERS' EQUITY.**

Accounts payable and accrued expenses includes liabilities of \$12.2 million at December 31, 2019, for common stock repurchases that settled during the first week of January 2020.

**NOTE 7 – STOCK-BASED COMPENSATION.****STOCK OPTIONS.**

The following table summarizes the status of, and changes in, our stock options during the nine months ended September 30, 2020.

	<b>Options</b>	<b>Weighted- average exercise price</b>
Outstanding at December 31, 2019	7,388,068	\$ 71.06
Exercised	(2,555,527)	\$ 68.53
Forfeited	(6,874)	\$ 74.48
Outstanding at September 30, 2020	<u>4,825,667</u>	<u>\$ 72.39</u>
Exercisable at September 30, 2020	<u>4,165,306</u>	<u>\$ 71.85</u>

**RESTRICTED SHARES AND STOCK UNITS.**

The following table summarizes the status of, and changes in, our nonvested restricted shares and restricted stock units during the nine months ended September 30, 2020.

	<b>Restricted shares</b>	<b>Restricted stock units</b>	<b>Weighted-average fair value</b>
Nonvested at December 31, 2019	7,404	6,718,261	\$ 98.75
Time-based grants	7,412	53,484	\$ 119.80
Dividend equivalents granted to non-employee directors	—	1,842	\$ 116.19
Vested	(7,404)	(116,121)	\$ 93.25
Forfeited	—	(82,764)	\$ 97.29
Nonvested at September 30, 2020	<u>7,412</u>	<u>6,574,702</u>	<u>\$ 99.07</u>

Nonvested at September 30, 2020, includes 403,008 performance-based restricted stock units, including 318,768 restricted stock units for which the performance period has expired and the performance threshold has been met.

**FUTURE STOCK-BASED COMPENSATION EXPENSE.**

The following table presents the compensation expense to be recognized over the remaining vesting periods of the stock-based awards outstanding at September 30, 2020. Estimated future compensation expense will change to reflect future grants of restricted stock awards and units, future option grants, changes in the probability of performance thresholds being met, and adjustments for actual forfeitures.

<b>(in millions)</b>	
Fourth quarter 2020	\$ 46.8
2021	109.1
2022 through 2026	90.6
<b>Total</b>	<u>\$ 246.5</u>

**NOTE 8 – EARNINGS PER SHARE CALCULATIONS.**

The following table presents the reconciliation of net income attributable to T. Rowe Price Group to net income allocated to our common stockholders and the weighted-average shares that are used in calculating the basic and diluted earnings per share on our common stock. Weighted-average common shares outstanding assuming dilution reflects the potential dilution, determined using the treasury stock method, that could occur if outstanding stock options were exercised and non-participating stock awards vested. No outstanding stock options had an anti-dilutive impact on the diluted earnings per common share calculation in the periods presented.

(in millions)	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
Net income attributable to T. Rowe Price Group	\$ 643.2	\$ 545.9	\$ 1,589.3	\$ 1,586.0
Less: net income allocated to outstanding restricted stock and stock unit holders	17.9	13.9	44.1	40.7
Net income allocated to common stockholders	<u>\$ 625.3</u>	<u>\$ 532.0</u>	<u>\$ 1,545.2</u>	<u>\$ 1,545.3</u>
Weighted-average common shares				
Outstanding	<u>227.0</u>	<u>234.9</u>	<u>229.5</u>	<u>235.8</u>
Outstanding assuming dilution	<u>229.4</u>	<u>238.2</u>	<u>231.9</u>	<u>239.0</u>

**NOTE 9 – OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE LOSS.**

The changes in each component of accumulated other comprehensive loss, including reclassification adjustments for the three months ended September 30, 2020 and 2019 are presented in the table below.

(in millions)	Three months ended 9/30/2020			Three months ended 9/30/2019		
	Equity method investments	Consolidated T. Rowe Price investment products - variable interest entities	Total currency translation adjustments	Equity method investments	Consolidated T. Rowe Price investment products - variable interest entities	Total currency translation adjustments
Balances at beginning of period	\$ (54.4)	\$ 2.2	\$ (52.2)	\$ (43.8)	\$ 5.3	\$ (38.5)
Other comprehensive income (loss) before reclassifications and income taxes	(2.0)	12.5	10.5	(1.0)	(12.6)	(13.6)
Reclassification adjustments recognized in non-operating income	—	—	—	—	.1	.1
	(2.0)	12.5	10.5	(1.0)	(12.5)	(13.5)
Net deferred tax benefits (income taxes)	2.1	(3.1)	(1.0)	.3	3.1	3.4
Other comprehensive income (loss)	.1	9.4	9.5	(.7)	(9.4)	(10.1)
Balances at end of period	<u>\$ (54.3)</u>	<u>\$ 11.6</u>	<u>\$ (42.7)</u>	<u>\$ (44.5)</u>	<u>\$ (4.1)</u>	<u>\$ (48.6)</u>

The other comprehensive income (loss) in the table above excludes \$20.8 million in the 2020 quarter and \$(17.4) million in the 2019 quarter of other comprehensive income (loss) related to redeemable non-controlling interests held in our consolidated products.

The changes in each component of accumulated other comprehensive loss, including reclassification adjustments for the nine months ended September 30, 2020 and 2019, are presented in the table below.

(in millions)	Nine months ended 9/30/2020			Nine months ended 9/30/2019		
	Equity method investments	Consolidated T. Rowe Price investment products - variable interest entities	Total currency translation adjustments	Equity method investments	Consolidated T. Rowe Price investment products - variable interest entities	Total currency translation adjustments
Balances at beginning of period	\$ (46.9)	\$ 3.9	\$ (43.0)	\$ (48.8)	\$ 6.8	\$ (42.0)
Other comprehensive income (loss) before reclassifications and income taxes	(9.4)	10.3	.9	5.4	(14.4)	(9.0)
Reclassification adjustments recognized in non-operating income	—	(.1)	(.1)	—	(.1)	(.1)
	(9.4)	10.2	.8	5.4	(14.5)	(9.1)
Net deferred tax benefits (income taxes)	2.0	(2.5)	(.5)	(1.1)	3.6	2.5
Other comprehensive income (loss)	(7.4)	7.7	.3	4.3	(10.9)	(6.6)
Balances at end of period	\$ (54.3)	\$ 11.6	\$ (42.7)	\$ (44.5)	\$ (4.1)	\$ (48.6)

The other comprehensive income (loss) in the table above excludes \$13.9 million for the 2020 period and \$(17.7) million for the 2019 period of other comprehensive income (loss) related to redeemable non-controlling interests held in our consolidated products.

#### NOTE 10 – COMMITMENTS AND CONTINGENCIES.

On February 14, 2017, T. Rowe Price Group, Inc., T. Rowe Price Associates, Inc., T. Rowe Price Trust Company, current and former members of the management committee, and trustees of the T. Rowe Price U.S. Retirement Program were named as defendants in a lawsuit filed in the United States District Court for the District of Maryland. The lawsuit alleges breaches of ERISA's fiduciary duty and prohibited transaction provisions on behalf of a class of all participants and beneficiaries of the T. Rowe Price 401(k) Plan from February 14, 2011, to the time of judgment. The matter has been certified as a class action. T. Rowe Price believes the claims are without merit and is vigorously defending the action. Plaintiffs have filed a motion for partial summary judgment and defendants have filed a cross-motion for summary judgment, and briefing is underway. We cannot predict the eventual outcome, or whether it will have a material negative impact on our financial results, or estimate the possible loss or range of loss that may arise from any negative outcome.

On April 27, 2016, certain shareholders in the T. Rowe Price Blue Chip Growth Fund, T. Rowe Price Capital Appreciation Fund, T. Rowe Price Equity Income Fund, T. Rowe Price Growth Stock Fund, T. Rowe Price International Stock Fund, T. Rowe Price High Yield Fund, T. Rowe Price New Income Fund and T. Rowe Price Small Cap Stock Fund (the "Funds") filed a Section 36(b) complaint under the caption Zoidis v. T. Rowe Price Assoc., Inc., against T. Rowe Price Associates, Inc. ("T. Rowe Price") in the United States District Court for the Northern District of California. The complaint alleges that the management fees for the identified funds are excessive because T. Rowe Price charges lower advisory fees to subadvised clients with funds in the same strategy. The complaint seeks to recover the allegedly excessive advisory fees received by T. Rowe Price in the year preceding the start of the lawsuit, along with investments' returns and profits. In the alternative, the complaint seeks the rescission of each fund's investment management agreement and restitution of any allegedly excessive management fees. T. Rowe Price believes the claims are without merit and is vigorously defending the action. This matter is in the discovery phase of litigation and we cannot predict the eventual outcome, or whether it will have a material negative impact on our financial results, or estimate the possible loss or range of loss that may arise from any negative outcome.

In addition to the matters discussed above, various claims against us arise in the ordinary course of business, including employment-related claims. In the opinion of management, after consultation with counsel, the likelihood of an adverse determination in one or more of these pending ordinary course of business claims that would have a material adverse effect on our financial position or results of operations is remote.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors  
T. Rowe Price Group, Inc.:

*Results of Review of Interim Financial Information*

We have reviewed the condensed consolidated balance sheet of T. Rowe Price Group, Inc. and subsidiaries ("the Company") as of September 30, 2020, the related condensed consolidated statements of income and comprehensive income, and stockholders' equity for the three-month and nine-month periods ended September 30, 2020 and 2019, the related condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2020 and 2019, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2019, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 13, 2020, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2019, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

*Basis for Review Results*

This consolidated interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ KPMG LLP  
Baltimore, Maryland  
October 29, 2020

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **OVERVIEW.**

Our revenues and net income are derived primarily from investment advisory services provided to individual and institutional investors in U.S. mutual funds, subadvised funds, separately managed accounts, collective investment trusts, and other T. Rowe Price products. The other T. Rowe Price products include: open-ended investment products offered to investors outside the U.S., and products offered through variable annuity life insurance plans in the U.S. We also provide certain investment advisory clients with related administrative services, including distribution, mutual fund transfer agent, accounting, and shareholder services; participant recordkeeping and transfer agent services for defined contribution retirement plans; brokerage; and trust services.

We manage a broad range of U.S., international and global stock, bond, and money market mutual funds and collective investment trusts and other investment products, which meet the varied needs and objectives of individual and institutional investors. Investment advisory revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management affect our revenues and results of operations. Additionally, approximately one-third of our operating expenses are impacted by fluctuations in our assets under management.

We incur significant expenditures to develop new products and services and improve and expand our capabilities and distribution channels in order to attract new investment advisory clients and additional investments from our existing clients. These efforts often involve costs that precede any future revenues that we may recognize from an increase to our assets under management.

The general trend to passive investing has been persistent and accelerated in recent years, which has negatively impacted our new client inflows. However, over the long term we expect well-executed active management to play an important role for investors. In this regard, we remain debt-free with ample liquidity and resources that allow us to take advantage of attractive growth opportunities. We are investing in key capabilities, including investment professionals, distribution professionals, technologies, and new product offerings; and, most importantly, we provide our clients with strong investment management expertise and service both now and in the future.

### **MARKET TRENDS.**

Led by large-cap growth stocks, U.S. equities generated strong returns in the third quarter. Stocks rose for much of the summer, helped by better-than-expected second-quarter corporate earnings reports amid very low earnings expectations, as well as largely positive news flow about potential vaccines and treatments for the coronavirus. In fact, the S&P 500 Index hit an all-time high during the quarter, surpassing its previous peak in February 2020. Stocks retreated a bit in September amid concerns about valuations in some sectors due to significant gains since late March. Some investors were also concerned about the durability of the economic recovery and disappointed that Congress failed to agree on new fiscal stimulus legislation.

Stocks in developed non-U.S. equity markets also advanced in U.S. dollar terms. European stock markets were mostly positive, led by Denmark, Ireland, and Sweden—in all three countries, equities returned about 15%. Developed Asian and Far East markets were mixed, but Japanese shares led the way, returning more than 7%.

Emerging markets stocks outperformed developed non-U.S. equity markets. Asian emerging markets were mostly positive; Taiwanese shares led the region with a 17% gain. Latin American shares were mixed, as Argentine shares rose about 7% while Chilean shares fell 4%. Most emerging European markets declined. Turkey experienced one of the steepest drops, with stocks falling more than 15% in U.S. dollar terms amid an 11% decline in the lira versus the U.S. dollar.

Returns of several major equity market indexes for the three- and nine-month periods ended September 30, 2020, were as follows:

Index	Three months ended	Nine months ended
	9/30/2020	9/30/2020
S&P 500 Index	8.9%	5.6%
NASDAQ Composite Index <sup>(1)</sup>	11.0%	24.5%
Russell 2000 Index	4.9%	(8.7)%
MSCI EAFE (Europe, Australasia, and Far East) Index	4.9%	(6.7)%
MSCI Emerging Markets Index	9.7%	(.9)%

<sup>(1)</sup> Returns exclude dividends

Global bonds produced mostly positive returns. In the U.S. investment-grade market, corporate bonds were among the best performers, as credit spreads remained relatively narrow and, in some cases, tightened amid healthy demand for securities with a yield advantage. Treasuries and mortgage-backed securities lagged with close to flat returns. The Federal Reserve kept short-term interest rates near 0%; the 10-year U.S. Treasury note yield increased from 0.66% to 0.69%. Tax-free municipal bonds produced positive returns and outperformed the broad taxable bond market. High yield corporate bonds easily outperformed the investment-grade market.

Bonds in developed non-U.S. markets produced strong gains in U.S. dollar terms. Dollar weakness against the euro, the pound, and the yen boosted European and Japanese bond returns in dollar terms. Emerging markets bonds generally rose, but weakness in certain currencies weighed on the performance of some local bond markets in U.S. dollar terms.

Returns for several major bond market indexes for the three- and nine-month periods ended September 30, 2020, were as follows:

Index	Three months ended	Nine months ended
	9/30/2020	9/30/2020
Bloomberg Barclays U.S. Aggregate Bond Index	.6%	6.8%
JPMorgan Global High Yield Index	4.9%	(1.1)%
Bloomberg Barclays Municipal Bond Index	1.2%	3.3%
Bloomberg Barclays Global Aggregate Ex-U.S. Dollar Bond Index	4.1%	4.7%
JPMorgan Emerging Markets Bond Index Plus	1.8%	1.3%

## ASSETS UNDER MANAGEMENT.

Assets under management ended the third quarter of 2020 at \$1,310.4 billion, an increase of \$90.4 billion from June 30, 2020. This increase was driven by market appreciation, partially offset by net cash outflows of \$5.3 billion. In addition, we acquired client contracts from PNC Bank in September 2020 that added \$1.2 billion of stable value assets under management. Clients transferred \$2.4 billion in net assets from the U.S. mutual funds to collective investment trusts and other investment products, of which \$1.6 billion transferred into the retirement date trusts. Market appreciation and income, net of dividends not reinvested, increased our assets under management by \$94.5 billion in the third quarter of 2020.

For the nine months ended September 30, 2020, assets under management increased \$103.6 billion from the end of 2019. This increase was driven by market appreciation, partially offset by net cash inflows of \$3.4 billion. In addition, we acquired client contracts from PNC Bank in September 2020 that added \$1.2 billion of stable value assets under management. Clients transferred \$11.2 billion in net assets from the U.S. mutual funds to collective investment trusts and other investment products, of which \$7.7 billion transferred into the retirement date trusts. Market appreciation and income, net of dividends not reinvested, increased our assets under management by \$99.0 billion in the nine months ended September 30, 2020.

The following tables detail changes in our assets under management, by vehicle and asset class during the three- and nine-month periods ended September 30, 2020:

(in billions)	Three months ended 9/30/2020				Nine months ended 9/30/2020			
	U.S. mutual funds	Subadvised funds and separate accounts	Collective investment trusts and other investment products	Total	U.S. mutual funds	Subadvised funds and separate accounts	Collective investment trusts and other investment products	Total
Assets under management at beginning of period	\$ 670.8	\$ 327.5	\$ 221.7	\$ 1,220.0	\$ 682.7	\$ 313.8	\$ 210.3	\$ 1,206.8
Net cash flows before client transfers	(3.9)	(.1)	(1.3)	(5.3)	(8.0)	7.0	4.4	3.4
Client transfers <sup>(1)</sup>	(2.4)	—	2.4	—	(11.2)	1.5	9.7	—
Net cash flows after client transfers	(6.3)	(.1)	1.1	(5.3)	(19.2)	8.5	14.1	3.4
Net market appreciation and income	51.8	26.9	15.9	94.6	53.1	32.0	14.3	99.4
Net distributions not reinvested	(.1)	—	—	(.1)	(.4)	—	—	(.4)
Acquired AUM	—	—	1.2	1.2	—	—	1.2	1.2
Change during the period	45.4	26.8	18.2	90.4	33.5	40.5	29.6	103.6
Assets under management at September 30, 2020	\$ 716.2	\$ 354.3	\$ 239.9	\$ 1,310.4	\$ 716.2	\$ 354.3	\$ 239.9	\$ 1,310.4

(in billions)	Three months ended 9/30/2020				Nine months ended 9/30/2020			
	Equity	Fixed income, including money market	Multi-asset <sup>(2)</sup>	Total	Equity	Fixed income, including money market	Multi-asset <sup>(2)</sup>	Total
Assets under management at beginning of period	\$ 718.9	\$ 153.0	\$ 348.1	\$ 1,220.0	\$ 698.9	\$ 147.9	\$ 360.0	\$ 1,206.8
Net cash flows	(3.8)	4.7	(6.2)	(5.3)	.3	10.0	(6.9)	3.4
Net market appreciation and income <sup>(3)</sup>	70.7	2.2	21.6	94.5	86.6	2.0	10.4	99.0
Acquired AUM	—	1.2	—	1.2	—	1.2	—	1.2
Change during the period	66.9	8.1	15.4	90.4	86.9	13.2	3.5	103.6
Assets under management at September 30, 2020	\$ 785.8	\$ 161.1	\$ 363.5	\$ 1,310.4	\$ 785.8	\$ 161.1	\$ 363.5	\$ 1,310.4

<sup>(1)</sup> Client transfers for subadvised funds and separate accounts as well as collective investment trusts and other investment products in the nine months ended September 30, 2020 have been updated to reflect an adjustment from the second quarter of 2020.

<sup>(2)</sup> The underlying assets under management of the multi-asset portfolios have been aggregated and presented in this category and not reported in the equity and fixed income columns.

<sup>(3)</sup> Includes distributions reinvested and not reinvested.

Investment advisory clients outside the U.S. account for about 8.7% of our assets under management at September 30, 2020 and 6.9% at December 31, 2019.

Our target date retirement products, which are included in the multi-asset totals shown above, continue to be a significant part of our assets under management. Assets under management in these portfolios were as follows:

(in billions)	As of		
	9/30/2020	6/30/2020	12/31/2019
Target date retirement U.S. mutual funds	\$ 159.6	\$ 153.0	\$ 164.8
Target date separate accounts	9.2	8.5	8.4
Target date retirement trusts	127.8	122.7	119.2
	<u>\$ 296.6</u>	<u>\$ 284.2</u>	<u>\$ 292.4</u>

Our target date retirement products experienced net cash outflows of \$5.5 billion in the third quarter of 2020 and net cash outflows of \$5.0 billion in the first nine months of 2020.

### **INVESTMENT PERFORMANCE.**

Strong investment performance is a key driver to attracting and retaining assets—and to our long-term success. We have expanded our performance disclosures to include specific asset classes, assets under management weighted performance, mutual fund performance against passive peers and composite performance against benchmarks. The following table presents investment performance for the one-, three-, five-, and 10-years ended September 30, 2020. Past performance is no guarantee of future results.

<b>% of U.S. mutual funds that outperformed Morningstar median<sup>1,2</sup></b>				
	1 year	3 years	5 years	10 years
Equity	60%	67%	70%	85%
Fixed Income	55%	61%	59%	62%
Multi-Asset	83%	80%	88%	90%
All Funds	65%	69%	72%	79%
<b>% of U.S. mutual funds that outperformed passive peer median<sup>1,3</sup></b>				
	1 year	3 years	5 years	10 years
Equity	63%	67%	59%	65%
Fixed Income	63%	60%	55%	40%
Multi-Asset	76%	68%	61%	92%
All Funds	67%	65%	58%	65%
<b>% of composites that outperformed benchmarks<sup>4</sup></b>				
	1 year	3 years	5 years	10 years
Equity	56%	59%	70%	73%
Fixed Income	49%	50%	52%	68%
All Composites	53%	56%	63%	71%

## **AUM Weighted Performance**

### **% of U.S. mutual funds AUM that outperformed Morningstar median<sup>1,2</sup>**

	1 year	3 years	5 years	10 years
Equity	74%	79%	83%	92%
Fixed Income	49%	55%	55%	62%
Multi-Asset	91%	91%	97%	97%
All Funds	76%	80%	84%	90%

### **% of U.S. mutual funds AUM that outperformed passive peer median<sup>1,3</sup>**

	1 year	3 years	5 years	10 years
Equity	77%	77%	73%	73%
Fixed Income	49%	46%	44%	34%
Multi-Asset	87%	91%	94%	96%
All Funds	77%	78%	76%	76%

### **% of composites AUM that outperformed benchmarks<sup>4</sup>**

	1 year	3 years	5 years	10 years
Equity	59%	61%	67%	78%
Fixed Income	44%	47%	34%	73%
All Composites	56%	58%	62%	77%

As of September 30, 2020, 74 of 124 (60%) of our rated U.S. mutual funds (across primary share classes) received an overall rating of 4 or 5 stars. By comparison, 32.5% of Morningstar's fund population is given a rate of four or five stars<sup>(5)</sup>. In addition, 85%<sup>(5)</sup> of AUM in our rated U.S. mutual funds (across primary share classes) ended the third quarter of 2020 with an overall rating of four or five stars.

<sup>(1)</sup> Source: © 2020 Morningstar, Inc. All rights reserved. The information contained herein: 1) is proprietary to Morningstar and/or its content providers; 2) may not be copied or distributed; and 3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

<sup>(2)</sup> Source: Morningstar. Primary share class only. Excludes money market mutual funds, funds with an operating history of less than one year, T. Rowe Price passive funds, and T. Rowe Price funds that are clones of other funds. The top chart reflects the percentage of T. Rowe Price funds with 1-year, 3-year, 5-year, and 10-year track record that are outperforming the Morningstar category median. The bottom chart reflects the percentage of T. Rowe Price funds AUM that has outperformed for the time periods indicated. Total AUM included for this analysis includes \$456B for 1 year, \$456B for 3 years, \$456B for 5 years, and \$449B for 10 years.

<sup>(3)</sup> Passive Peer Median was created by T. Rowe Price using data from Morningstar. Primary share class only. Excludes money market mutual funds, funds with an operating history of less than one year, funds with fewer than three peers, T. Rowe Price passive funds, and T. Rowe Price funds that are clones of other funds. This analysis compares T. Rowe Price active funds to the applicable universe of passive/index open-end funds and ETFs of peer firms. The top chart reflects the percentage of T. Rowe Price funds with 1-year, 3-year, 5-year, and 10-year track record that are outperforming the passive peer universe. The bottom chart reflects the percentage of T. Rowe Price funds AUM that has outperformed for the time periods indicated. Total AUM included for this analysis includes \$436B for 1 year, \$396B for 3 years, \$394B for 5 years, and \$377B for 10 years.

<sup>(4)</sup> Composite net returns are calculated using the highest applicable separate account fee schedule. Excludes money market composites. All composites compared to official GIPS composite primary benchmark. The top chart reflects the percentage of T. Rowe Price composites with 1-year, 3-year, 5-year, and 10-year track record that are outperforming their benchmarks. The bottom chart reflects the percentage of T. Rowe Price composite AUM that has outperformed for the time periods indicated. Total AUM included for this analysis includes \$1,207B for 1 year, \$1,195B for 3 years, \$1,180B for 5 years, and \$1,146B for 10 years.

<sup>(5)</sup> The Morningstar Rating™ for funds is calculated for funds with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. Morningstar gives its best ratings of 5 or 4 stars to the top 32.5% of all funds (of the 32.5%, 10% get 5 stars and 22.5% get 4 stars). The Overall Morningstar Rating™ is derived from a weighted average of the performance figures associated with a fund's 3-, 5-, and 10-year (if applicable) Morningstar Rating™ metrics.

## **RESULTS OF OPERATIONS.**

The following table and discussion sets forth information regarding our consolidated financial results for the three and nine months ended September 30, 2020 and 2019 on a U.S. GAAP basis as well as a non-GAAP basis. The non-GAAP basis adjusts for the impact of our consolidated T. Rowe Price investment products, the impact of market appreciation/depreciation on the supplemental savings plan liability and related economic hedges, investment gains/losses related to certain other investments, and certain nonrecurring charges and gains.

(in millions, except per-share data)	Three months ended		Q3 2020 vs. Q3 2019		Nine months ended		YTD 2020 vs. YTD 2019	
	9/30/2020	9/30/2019	\$ change	% change	9/30/2020	9/30/2019	\$ change	% change
<b>U.S. GAAP basis</b>								
Investment advisory fees	\$ 1,469.3	\$ 1,303.4	\$ 165.9	12.7 %	\$ 4,090.9	\$ 3,767.8	\$ 323.1	8.6 %
Net revenues	\$ 1,595.8	\$ 1,426.7	\$ 169.1	11.9 %	\$ 4,473.8	\$ 4,149.2	\$ 324.6	7.8 %
Operating expenses	\$ 866.9	\$ 767.6	\$ 99.3	12.9 %	\$ 2,484.0	\$ 2,342.5	\$ 141.5	6.0 %
Net operating income	\$ 728.9	\$ 659.1	\$ 69.8	10.6 %	\$ 1,989.8	\$ 1,806.7	\$ 183.1	10.1 %
Non-operating income <sup>(1)</sup>	\$ 191.6	\$ 43.0	\$ 148.6	n/m	\$ 106.4	\$ 370.3	\$ (263.9)	n/m
Net income attributable to T. Rowe Price Group	\$ 643.2	\$ 545.9	\$ 97.3	17.8 %	\$ 1,589.3	\$ 1,586.0	\$ 3.3	.2 %
Diluted earnings per common share	\$ 2.73	\$ 2.23	\$ .50	22.4 %	\$ 6.66	\$ 6.47	\$ .19	2.9 %
Weighted average common shares outstanding assuming dilution	229.4	238.2	(8.8)	(3.7)%	231.9	239.0	(7.1)	(3.0)%
<b>Adjusted non-GAAP basis<sup>(2)</sup></b>								
Operating expenses	\$ 830.5	\$ 765.1	\$ 65.4	8.5 %	\$ 2,434.2	\$ 2,286.3	\$ 147.9	6.5 %
Net operating income	\$ 768.0	\$ 664.2	\$ 103.8	15.6 %	\$ 2,046.9	\$ 1,869.2	\$ 177.7	9.5 %
Non-operating income <sup>(1)</sup>	\$ 25.6	\$ 18.8	\$ 6.8	n/m	\$ 50.2	\$ 98.8	\$ (48.6)	n/m
Net income attributable to T. Rowe Price Group	\$ 602.7	\$ 521.7	\$ 81.0	15.5 %	\$ 1,596.6	\$ 1,480.4	\$ 116.2	7.8 %
Diluted earnings per common share	\$ 2.55	\$ 2.13	\$ .42	19.7 %	\$ 6.69	\$ 6.04	\$ .65	10.8 %
<b>Assets under management</b> (in billions)								
Average assets under management	\$ 1,292.9	\$ 1,130.2	\$ 162.7	14.4 %	\$ 1,198.9	\$ 1,091.5	\$ 107.4	9.8 %
Ending assets under management	\$ 1,310.4	\$ 1,126.3	\$ 184.1	16.3 %	\$ 1,310.4	\$ 1,126.3	\$ 184.1	16.3 %

<sup>(1)</sup> The percentage change in non-operating income (loss) is not meaningful (n/m).

<sup>(2)</sup> See the reconciliation to the comparable U.S. GAAP measures at the end of the Results of Operations section of this Management's Discussion and Analysis.

## Results Overview - Quarter ended September 30, 2020

**Investment advisory revenues.** Investment advisory fees are earned based on the value and composition of our assets under management, which change based on fluctuations in financial markets and net cash flows. As our average assets under management increase or decrease in a given period, the level of our investment advisory fee revenue for that same period generally fluctuates in a similar manner. Our annualized effective fee rates can be impacted by market or cash flow related shifts among asset and share classes, price changes in existing products, and asset level changes in products with tiered-fee structures.

Investment advisory revenues earned in the third quarter of 2020 increased over the comparable 2019 quarter as average assets under our management increased \$162.7 billion, or 14.4%, to \$1,292.9 billion. In the third quarter of 2020, we voluntarily waived \$6.4 million, or less than 1% of our investment advisory fees from certain of our money market mutual funds, trusts and other investment portfolios in order to maintain a positive yield for investors. At September 30, 2020, combined net assets of the investment portfolios in which we waived fees in the third quarter of 2020 were \$23.2 billion. We expect to continue to waive fees for at least the remainder of 2020.

The average annualized effective fee rate earned during the third quarter of 2020 was 45.2 basis points, compared with 45.8 basis points earned during the third quarter of 2019. Our annualized effective fee rate declined primarily due to client transfers within the complex to lower fee vehicles or share classes over the last twelve months and the money market fee waivers.

**Operating expenses.** Operating expenses were \$866.9 million in the third quarter of 2020 compared with \$767.6 million in the third quarter of 2019. The increase in operating expenses for the third quarter of 2020 compared to the third quarter of 2019 was primarily due to a \$33.3 million increase in operating expenses related to the supplemental savings plan from higher market returns, higher salaries and annual bonus accrual, and the firm's

continued strategic investments. For the third quarter of 2020, the higher expense related to the supplemental savings plan was largely offset by the non-operating gains earned on the investments used to economically hedge the related liability.

On a non-GAAP basis, our operating expenses in the third quarter of 2020 increased 8.5% to \$830.5 million compared to the third quarter of 2019. Our non-GAAP operating expenses do not include the impact of our supplemental savings plan and consolidated sponsored investment products. See our non-GAAP reconciliations later in this Management's Discussion and Analysis section.

Operating margin. Our operating margin in the third quarter of 2020 was 45.7%, compared to 46.2% earned in the 2019 quarter. The decrease in our operating margin for the third quarter of 2020 compared to the 2019 period was primarily driven by the higher expense related to our supplemental savings plan as market returns in the third quarter of 2020 outperformed the same period in 2019, partially offset by higher investment advisory fee revenue.

Diluted earnings per share. Diluted earnings per share was \$2.73 for the third quarter of 2020 as compared to \$2.23 for the third quarter of 2019. The 22.4% increase was primarily driven by higher operating income and net investment gains recognized in the third quarter of 2020 as compared to the third quarter of 2019 as well as a 3.7% decline in weighted average shares outstanding. The primary drivers for the increase were partially offset by a higher effective income tax rate in 2020 quarter as compared to the 2019 quarter.

On a non-GAAP basis, diluted earnings per share was \$2.55 for the third quarter of 2020 as compared to \$2.13 for the third quarter of 2019. The increase in diluted earnings per share was primarily due to higher operating income and lower weighted average shares outstanding.

### **Results Overview - Year-to-Date ended September 30, 2020**

Investment advisory revenues. Investment advisory revenues earned in the nine months ended September 30, 2020 increased over the comparable 2019 period as average assets under our management increased \$107.4 billion, or 9.8%, to \$1,198.9 billion.

In the second quarter of 2020, we began voluntarily waiving a portion of our money market advisory fees and fund expenses in order to maintain a positive yield for investors. We waived \$9.1 million, or less than 1% of total investment advisory fees from certain of our money market mutual funds, trusts and other investment portfolios during the nine months ended September 30, 2020.

The average annualized effective fee rate earned on our assets under management during the nine months ended September 30, 2020 was 45.6 basis points compared with 46.2 basis points earned during the same period of 2019. Our annualized effective fee rate declined primarily due to client transfers within the complex to lower fee vehicles or share classes over the last twelve months and the money market fee waivers.

Operating expenses. Operating expenses were \$2,484.0 million in the nine months ended September 30, 2020 compared with \$2,342.5 million in the 2019 period. The increase in operating expenses was primarily due to higher salary and benefits expense, annual bonus accrual, stock-based compensation expense and our continued strategic investments. These increases were partially offset by a \$6.5 million decrease in operating expenses related to the supplemental savings plan due to lower market returns in the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019.

On a non-GAAP basis, our operating expenses for the nine months ended September 30, 2020 increased 6.5% to \$2,434.2 million compared to the 2019 period. Our non-GAAP operating expenses do not include the impact of our supplemental savings plan and consolidated sponsored investment products. See our non-GAAP reconciliations later in this Management's Discussion and Analysis section.

We are narrowing our full-year 2020 non-GAAP operating expense growth guidance from a range of 3%-6% to a range of 4%-6%. The non-GAAP operating expense growth in the fourth quarter of 2020 compared to the same period in 2019 is expected to be lower than the 6.5% growth experienced year-to-date. For 2021, we currently estimate that our non-GAAP operating expenses will grow in the range of 6%-9%. These ranges include investments in our critical strategic initiatives to promote long-term growth of the business. We could elect to further adjust our expense growth should unforeseen circumstances arise, including significant market movements.

**Operating margin.** Our operating margin in the nine months ended September 30, 2020 was 44.5%, compared to 43.5% earned in the 2019 period. The increase in our operating margin for the nine months ended September 30, 2020 compared to the 2019 period was primarily driven by higher net revenues and lower expense related to our supplemental savings plan.

**Diluted earnings per share.** Diluted earnings per share was \$6.66 for the nine months ended September 30, 2020 as compared to \$6.47 for the nine months ended September 30, 2019. The 2.9% increase was primarily driven by higher operating income and lower weighted average outstanding shares. These drivers of the increase were partially offset by lower net investment gains recognized in the nine months ended September 30, 2020 as compared to the 2019 period.

On a non-GAAP basis, diluted earnings per share was \$6.69 for the nine months ended September 30, 2020 as compared to \$6.04 for the 2019 period. The increase in adjusted diluted earnings per share was primarily due to higher operating income, lower weighted average outstanding shares, and a lower effective tax rate. The impact of these drivers were partially offset by lower net investment gains recognized in the 2020 period. See our non-GAAP reconciliations later in this Management's Discussion and Analysis section.

### **Net revenues**

(in millions)	Three months ended		Q3 2020 vs. Q3 2019		Nine months ended		YTD 2020 vs. YTD 2019	
	9/30/2020	9/30/2019	\$ change	% change	9/30/2020	9/30/2019	\$ change	% change
<b>Investment advisory fees</b>								
U.S. mutual funds	\$ 939.5	\$ 881.0	\$ 58.5	6.6 %	\$ 2,638.8	\$ 2,557.6	\$ 81.2	3.2 %
Subadvised funds, separate accounts, collective investment trusts, and other investment products	529.8	422.4	107.4	25.4 %	1,452.1	1,210.2	241.9	20.0 %
	1,469.3	1,303.4	165.9	12.7 %	4,090.9	3,767.8	323.1	8.6 %
<b>Administrative, distribution, and servicing fees</b>								
Administrative fees	98.0	93.2	4.8	5.2 %	300.8	291.0	9.8	3.4 %
Distribution and servicing fees	28.5	30.1	(1.6)	(5.3)%	82.1	90.4	(8.3)	(9.2)%
	126.5	123.3	3.2	2.6 %	382.9	381.4	1.5	.4 %
<b>Net revenues</b>	<b>\$ 1,595.8</b>	<b>\$ 1,426.7</b>	<b>\$ 169.1</b>	<b>11.9 %</b>	<b>\$ 4,473.8</b>	<b>\$ 4,149.2</b>	<b>\$ 324.6</b>	<b>7.8 %</b>

### **Investment advisory fees.**

#### **U.S. mutual funds**

Investment advisory revenues earned in the third quarter of 2020 from our U.S. mutual funds were \$939.5 million, an increase of 6.6% from the comparable 2019 quarter. Average assets under management in these funds for the third quarter of 2020 increased 9.0% from the 2019 quarter to \$708.8 billion.

Investment advisory revenues earned in the nine months ended September 30, 2020 from the firm's U.S. mutual funds were \$2,638.8 million, an increase of 3.2% from the comparable 2019 period. Average assets under management in these funds for the nine months ended September 30, 2020 increased 4.9% from the 2019 period to \$664.0 billion.

The difference in the percentage of change in revenue compared with assets under management for both the 2020 quarter and year-to-date periods from the comparable 2019 periods is primarily due to client transfers within the complex to lower fee vehicles or shares classes during the last twelve months and the money market fee waivers.

Subadvised funds, separate accounts, collective investment trusts and other investment products (Other Portfolios)

Investment advisory revenues earned in the third quarter of 2020 from these other portfolios were \$529.8 million, an increase of 25.4% from the comparable 2019 quarter. Average assets under management for these products increased 21.8% from the 2019 quarter to \$584.1 billion.

Investment advisory revenues earned in the nine months ended September 30, 2020 from these other portfolios were \$1,452.1 million, an increase of 20.0% from the 2019 period. Average assets under management for these products increased 16.7% from the 2019 period to \$534.9 billion.

Inflows into the Japanese ITMs, which have a higher fee rate relative to other products, have caused total investment advisory fees earned from other portfolios to outpace the increase in average assets under management. These investment advisory revenues include distribution-related services we provide to the Japanese ITMs and then contract with third-party intermediaries to distribute these products. The costs we incur to pay the third-party intermediaries are recorded as part of distribution and servicing expenses.

Administrative, distribution, and servicing fees. Administrative, distribution, and servicing fees in the third quarter of 2020 were \$126.5 million, an increase of \$3.2 million, or 2.6%, from the comparable 2019 quarter. For the nine months ended September 30, 2020, these fees were \$382.9 million, an increase of \$1.5 million, or .4%, from the 2019 period. The increase for both periods was primarily due to increased retail transfer agent servicing activities. These increases were partially offset by lower 12b-1 revenue earned on certain share classes, including the Advisor and R classes, of the U.S. mutual funds as lower markets in 2020 as well as client transfers to lower fee vehicles and share classes over the last twelve months have reduced assets under management in these share classes. The decline in 12b-1 revenue is offset entirely by a reduction in the costs paid to third-party intermediaries that source these assets and reported in distribution and servicing expense.

Our net revenues reflect the elimination of advisory and administrative fee revenue earned from our consolidated T. Rowe Price investment products. The corresponding expenses recognized by these products, and consolidated in our financial statements, were also eliminated from operating expenses. For the third quarter, we eliminated net revenue of \$2.7 million in 2020 and \$2.6 million in 2019. For the nine months ended September 30, we eliminated net revenue of \$7.3 million in 2020 and \$6.3 million in 2019.

**Operating expenses**

(in millions)	Three months ended		Q3 2020 vs. Q3 2019		Nine months ended		YTD 2020 vs. YTD 2019	
	9/30/2020	9/30/2019	\$ change	% change	9/30/2020	9/30/2019	\$ change	% change
Compensation and related costs	\$ 552.3	\$ 466.3	\$ 86.0	18.4 %	\$ 1,542.0	\$ 1,441.0	\$ 101.0	7.0 %
Distribution and servicing	73.5	64.5	9.0	14.0 %	201.2	195.3	5.9	3.0 %
Advertising and promotion	14.2	17.1	(2.9)	(17.0)%	52.5	58.5	(6.0)	(10.3)%
Product-related costs	36.8	38.0	(1.2)	(3.2)%	118.0	115.6	2.4	2.1 %
Technology, occupancy, and facility costs	115.6	106.5	9.1	8.5 %	332.3	309.5	22.8	7.4 %
General, administrative, and other	74.5	75.2	(.7)	(.9)%	238.0	222.6	15.4	6.9 %
Total operating expenses	\$ 866.9	\$ 767.6	\$ 99.3	12.9 %	\$ 2,484.0	\$ 2,342.5	\$ 141.5	6.0 %

Compensation and related costs. Compensation and related costs were \$552.3 million in the third quarter of 2020, an increase of \$86.0 million, or 18.4%, compared to the 2019 quarter. The increase from the 2019 quarter was primarily due to \$33.3 million in higher expense for our supplemental savings plan as strong market returns in the third quarter of 2020 increased the liability compared with a minor increase from market returns in the 2019 quarter. Additionally, increases in salaries, benefits, and related employee costs, which increased \$25.7 million from the 2019 period, as well as higher non-cash stock-based compensation expense contributed to the increase in compensation and related costs in the 2020 period. An increase of 5.6% in our average staff size and, to a lesser extent, the modest increases in base salaries at the beginning of 2020, have contributed to higher associate-related costs. Our interim accrual for annual variable compensation, primarily bonus compensation, also increased \$22.6 million in the third quarter of 2020 compared to the 2019 quarter. We recognize the interim bonus accrual ratably over the year using the ratio of recognized quarterly net revenues to currently forecasted annual net revenues. The interim bonus accrual each quarter will reflect changes in the annual bonus pool from fluctuations in annual net

revenues. These increases in compensation and related costs were offset in part by higher labor capitalization related to internally developed software.

Compensation and related costs were \$1,542.0 million in the nine months ended September 30, 2020, an increase of \$101.0 million, or 7.0%, compared to the 2019 period. The increase in compensation and related costs from the 2019 period was primarily due to an increase in salaries, benefits and related employee costs, which have increased \$57.8 million from the 2019 period. An increase of 5.6% in our average staff size and modest increases in base salaries at the beginning of 2020, and higher non-cash stock-based compensation expense have contributed to higher associate-related costs. Our interim accrual for annual variable compensation, primarily bonus compensation, also increased \$33.4 million in 2020 from the 2019 period. These increases in compensation and related costs were offset in part by \$6.5 million in lower expense for our supplemental savings plan and \$21.7 million in higher labor capitalization related to internally developed software in 2020 period.

Distribution and servicing. Distribution and servicing costs were \$73.5 million for the third quarter of 2020, an increase of 14.0% from the \$64.5 million recognized in the 2019 quarter. For the nine months ended September 30, 2020, these costs were \$201.2 million, an increase of 3.0% over the \$195.3 million recognized in the comparable 2019 period. The increase for both periods is primarily driven by higher distribution costs as a result of continued inflows into our Japanese ITMs. These increases were partially offset by client transfers to lower fee vehicles or share classes over the last twelve months that reduced assets under management for those mutual funds for which we pay distribution and servicing costs.

Distribution and servicing costs paid to third-party intermediaries that source the assets of certain share classes of our U.S. mutual funds are recognized in this expense line and are offset entirely by the 12b-1 revenue we earn and report in administrative, distribution, and servicing fees.

Advertising and promotion. Advertising and promotion costs were 14.2 in the third quarter of 2020, a decrease of \$2.9 million, or 17.0%, compared to the \$19.8 million recognized in the 2019 quarter. For the nine months ended September 30, 2020, these costs were \$52.5 million, a decrease of \$6.0 million, or 10.3%, compared to the 2019 period. The decrease for both periods is due primarily to fewer conference and promotional events in 2020 as compared to 2019.

Technology, occupancy, and facility costs. Technology, occupancy, and facility costs were \$115.6 million in the third quarter of 2020, an increase of \$9.1 million, or 8.5%, compared to the \$106.5 million recognized in the 2019 quarter. For the nine months ended September 30, 2020, these costs were \$332.3 million, an increase of \$22.8 million, or 7.4%, compared to the 2019 period. The increase for both periods is due primarily to the ongoing investment in our technology capabilities, including related depreciation and hosted solution licenses.

General, administrative, and other. General, administrative, and other expenses were \$74.5 million in the third quarter of 2020, a decrease of \$.7 million, or 1%, compared to the \$75.2 million recognized in the 2019 quarter. The decrease in the third quarter of 2020 as compared to the 2019 period is due primarily to lower travel-related expenses that were largely offset by higher professional fees and third-party investment research costs.

For the nine months ended September 30, 2020, general, administrative, and other expenses were \$238.0 million, an increase of \$15.4 million, or 6.9%, compared to the 2019 period. The increase in the nine months ended September 30, 2020 as compared to the 2019 period is due to certain nonrecurring administrative expenses, along with higher third-party investment research costs and higher professional fees. These increases were partially offset by lower travel-related expenses.

### **Non-operating income**

Non-operating income for the third quarter of 2020 was \$191.6 million, an increase of \$148.6 million from non-operating income of \$43.0 million in the 2019 quarter. For the nine months ended September 30, 2020, non-operating income was \$106.4 million, a decrease of \$263.9 million from non-operating income in the comparable 2019 period of \$370.3 million. The following table details the components of non-operating income for the quarter and year-to-date periods.

(in millions)	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
<b>Net gains (losses) from non-consolidated T. Rowe Price investment products</b>				
Cash and discretionary investments				
Dividend income	\$ 4.3	\$ 18.1	\$ 19.7	\$ 52.2
Market related gains and equity in earnings	21.3	.7	30.5	46.6
<b>Total cash and discretionary investments</b>	<b>25.6</b>	<b>18.8</b>	<b>50.2</b>	<b>98.8</b>
Seed capital investments				
Dividend income	.2	.2	1.4	1.0
Market related gains and equity in earnings	14.3	2.6	8.3	30.9
Net gain (loss) recognized upon deconsolidation	—	(.1)	.1	.1
Investments used to hedge the supplemental savings plan liability	33.3	1.7	29.2	44.8
<b>Total net gains from non-consolidated T. Rowe Price investment products</b>	<b>73.4</b>	<b>23.2</b>	<b>89.2</b>	<b>175.6</b>
Other investment income	11.2	8.9	11.4	18.4
<b>Net gains on investments</b>	<b>84.6</b>	<b>32.1</b>	<b>100.6</b>	<b>194.0</b>
Net gains on consolidated sponsored investment portfolios	101.2	11.6	13.3	176.3
Other income (loss), including foreign currency gains and losses	5.8	(.7)	(7.5)	—
<b>Non-operating income</b>	<b>\$ 191.6</b>	<b>\$ 43.0</b>	<b>\$ 106.4</b>	<b>\$ 370.3</b>

Our investment portfolio recognized significant gains in the third quarter of 2020 as strong markets continued into the third quarter of 2020. Our consolidated investment products and supplemental savings plan hedge portfolio comprised about 70% of the net gains recognized during the third quarter of 2020. Our cash and discretionary investment portfolio also experienced net investment gains of \$25.6 million in the third quarter of 2020.

Despite the global economies and markets disruption caused by the coronavirus pandemic in the first quarter of 2020, strong markets in the second quarter and third quarter of 2020 reversed net investment losses experienced in the first quarter of 2020. Our cash and discretionary investments and supplemental savings plan hedge portfolio comprised approximately 75% of the net gains recognized during the nine months ended September 30, 2020. The net investment gains returned by cash and discretionary investment portfolio was \$50.2 million in the nine months ended September 30, 2020.

The table above includes the net investment income of the underlying portfolios included in the consolidated T. Rowe Price investment products and not just the net investment income related to our interest. The table below shows the impact that the consolidated T. Rowe Price investment products had on the individual lines of our unaudited condensed consolidated statements of income and the portion attributable to our interest:

(in millions)	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
Operating expenses reflected in net operating income	\$ (4.4)	\$ (3.7)	\$ (11.7)	\$ (10.6)
Net investment income reflected in non-operating income	101.2	11.6	13.3	176.3
Impact on income before taxes	\$ 96.8	\$ 7.9	\$ 1.6	\$ 165.7
Net income (loss) attributable to our interest in the consolidated T. Rowe Price investment products	\$ 41.4	\$ 8.7	\$ (2.8)	\$ 96.7
Net income (loss) attributable to redeemable non-controlling interests (unrelated third-party investors)	55.4	(.8)	4.4	69.0
	\$ 96.8	\$ 7.9	\$ 1.6	\$ 165.7

## **Provision for income taxes**

Our effective tax rate for the third quarter of 2020 was 24.1%, compared with 22.4% in the 2019 quarter. The effective tax rate for the third quarter of 2020 increased as compared to the third quarter of 2019 primarily due to lower estimated annual net income attributable to redeemable non-controlling interests held in the firm's consolidated investment products, which are not taxable to the firm despite being included in pre-tax income, and lower discrete tax benefits associated with option exercises. These impacts were partially offset by a lower state effective tax rate, resulting primarily from the remeasurement of deferred tax liabilities related to the firm's investment portfolio.

Our effective tax rate for both the nine months ended September 30, 2020 and 2019 was 24.0%. The year-to-date 2020 effective tax rate reflects a lower state effective tax rate and higher discrete tax benefits associated with option exercises in the 2020 period, offset by lower estimated annual net income attributable to redeemable non-controlling interests held by the firm's consolidated investment products.

The following table reconciles the statutory federal income tax rate to our effective tax rate for both the three- and nine-months ended September 30, 2020 and 2019:

	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
Statutory U.S. federal income tax rate	21.0 %	21.0 %	21.0 %	21.0 %
State income taxes for current year, net of federal income tax benefits <sup>(1)</sup>	3.9	4.4	4.1	4.4
Net income attributable to redeemable non-controlling interests	(.3)	(.8)	—	(.8)
Net excess tax benefits from stock-based compensation plans activity	(.8)	(1.2)	(1.3)	(.9)
Other items	.3	(1.0)	.2	.3
Effective income tax rate	24.1 %	22.4 %	24.0 %	24.0 %

<sup>(1)</sup> State income tax benefits are reflected in the total benefits for net income attributable to redeemable non-controlling interests and stock-based compensation plans activity.

Our effective tax rate will continue to experience volatility in future periods as the discrete tax benefits recognized from option exercises are impacted by market fluctuations in our stock price and timing of option exercises. The rate will also be impacted by net investment income recognized on our consolidated investment products that are driven by market fluctuations and changes in the proportion of their net income that is attributable to non-controlling interests.

The non-GAAP tax rate primarily adjusts for the impact of the consolidated investment products, including the net income attributable to the redeemable non-controlling interests. Our non-GAAP effective tax rate increased to 24.1% in the third quarter of 2020 compared with 23.6% in third quarter of 2019, primarily due to lower discrete tax benefits associated with option exercises in the third quarter of 2020. For the nine months ended September 30, 2020, our non-GAAP effective tax rate was 23.9%, down from the 24.8% for the comparable 2019 period. The decrease in the non-GAAP effective tax rate for the nine months ended September 30, 2020 as compared to the 2019 period is primarily due to the lower effective state tax rate and higher discrete tax benefits associated with option exercises.

We currently estimate that our GAAP and non-GAAP effective tax rate for the full-year 2020 will be in the range of 23% to 25%.

## **NON-GAAP INFORMATION AND RECONCILIATION.**

We believe the non-GAAP financial measures below provide relevant and meaningful information to investors about our core operating results. These measures have been established in order to increase transparency for the purpose of evaluating our core business, for comparing current results with prior period results, and to enable more appropriate comparison with industry peers. However, non-GAAP financial measures should not be considered a substitute for financial measures calculated in accordance with U.S. GAAP and may be calculated differently by other companies.

The following schedules reconcile certain U.S. GAAP financial measures for the three months ended September 30, 2020 and 2019.

Three months ended 9/30/2020						
	Operating expenses	Net operating income	Non-operating income (loss)	Provision (benefit) for income taxes <sup>(4)</sup>	Net income attributable to T. Rowe Price Group	Diluted earnings per share <sup>(5)</sup>
<b>U.S. GAAP Basis</b>	\$ 866.9	\$ 728.9	\$ 191.6	\$ 221.9	\$ 643.2	\$ 2.73
Non-GAAP adjustments:						
Consolidated T. Rowe Price investment products <sup>(1)</sup>	(1.7)	4.4	(101.2)	(18.1)	(23.3)	(.10)
Supplemental savings plan liability <sup>(2)</sup>	(34.7)	34.7	(33.3)	.6	.8	—
Other non-operating income <sup>(3)</sup>	—	—	(31.5)	(13.5)	(18.0)	(.08)
<b>Adjusted Non-GAAP Basis</b>	<u>\$ 830.5</u>	<u>\$ 768.0</u>	<u>\$ 25.6</u>	<u>\$ 190.9</u>	<u>\$ 602.7</u>	<u>\$ 2.55</u>
Three months ended 9/30/2019						
	Operating expenses	Net operating income	Non-operating income (loss)	Provision (benefit) for income taxes <sup>(4)</sup>	Net income attributable to T. Rowe Price Group	Diluted earnings per share <sup>(5)</sup>
<b>U.S. GAAP Basis</b>	\$ 767.6	\$ 659.1	\$ 43.0	\$ 157.0	\$ 545.9	\$ 2.23
Non-GAAP adjustments:						
Consolidated T. Rowe Price investment products <sup>(1)</sup>	(1.1)	3.7	(11.6)	4.6	(13.3)	(.05)
Supplemental savings plan liability <sup>(2)</sup>	(1.4)	1.4	(1.7)	(.6)	.3	—
Other non-operating income <sup>(3)</sup>	—	—	(10.9)	0.3	(11.2)	(.05)
<b>Adjusted Non-GAAP Basis</b>	<u>\$ 765.1</u>	<u>\$ 664.2</u>	<u>\$ 18.8</u>	<u>\$ 161.3</u>	<u>\$ 521.7</u>	<u>\$ 2.13</u>

The following schedules reconcile certain U.S. GAAP financial measures for the nine months ended September 30, 2020 and 2019.

Nine months ended 9/30/2020						
	Operating expenses	Net operating income	Non-operating income (loss)	Provision (benefit) for income taxes <sup>(4)</sup>	Net income attributable to T. Rowe Price Group	Diluted earnings per share <sup>(5)</sup>
<b>U.S. GAAP Basis</b>	\$ 2,484.0	\$ 1,989.8	\$ 106.4	\$ 502.5	\$ 1,589.3	\$ 6.66
Non-GAAP adjustments:						
Consolidated T. Rowe Price investment products <sup>(1)</sup>	(4.4)	11.7	(13.3)	(1.3)	4.1	.02
Supplemental savings plan liability <sup>(2)</sup>	(45.4)	45.4	(29.2)	6.2	10.0	.04
Other non-operating income <sup>(3)</sup>	—	—	(13.7)	(6.9)	(6.8)	(.03)
<b>Adjusted Non-GAAP Basis</b>	<u>\$ 2,434.2</u>	<u>\$ 2,046.9</u>	<u>\$ 50.2</u>	<u>\$ 500.5</u>	<u>\$ 1,596.6</u>	<u>\$ 6.69</u>
Nine months ended 9/30/2019						
	Operating expenses	Net operating income	Non-operating income (loss)	Provision (benefit) for income taxes <sup>(4)</sup>	Net income attributable to T. Rowe Price Group	Diluted earnings per share <sup>(5)</sup>
<b>U.S. GAAP Basis</b>	\$ 2,342.5	\$ 1,806.7	\$ 370.3	\$ 522.0	\$ 1,586.0	\$ 6.47
Non-GAAP adjustments:						
Consolidated T. Rowe Price investment products <sup>(1)</sup>	(4.3)	10.6	(176.3)	(23.7)	(73.0)	(.30)
Supplemental savings plan liability <sup>(2)</sup>	(51.9)	51.9	(44.8)	1.7	5.4	.03
Other non-operating income <sup>(3)</sup>	—	—	(50.4)	(12.4)	(38.0)	(.16)
<b>Adjusted Non-GAAP Basis</b>	<u>\$ 2,286.3</u>	<u>\$ 1,869.2</u>	<u>\$ 98.8</u>	<u>\$ 487.6</u>	<u>\$ 1,480.4</u>	<u>\$ 6.04</u>

- (1) These non-GAAP adjustments remove the impact that the consolidated T. Rowe Price investment products have on our U.S. GAAP consolidated statements of income. Specifically, we add back the operating expenses and subtract the investment income of the consolidated T. Rowe Price investment products. The adjustment to our operating expenses represents the operating expenses of the consolidated products, net of the elimination of related management and administrative fees. The adjustment to net income attributable to T. Rowe Price Group represents the net income of the consolidated products, net of redeemable non-controlling interest. We remove the impact of the consolidated T. Rowe Price investment products as we believe they impact the reader's ability to understand our core operating results.
- (2) These non-GAAP adjustments remove the compensation expense impact from market valuation changes in the supplemental savings plan liability and the related net gains (losses) on investments designated as an economic hedge against the related liability. Amounts deferred under the supplemental savings plan are adjusted for appreciation (depreciation) of hypothetical investments chosen by participants. We use T. Rowe Price investment products to economically hedge the exposure to these market movements. We believe it is useful to offset the non-operating investment income (loss) realized on the hedges against the related compensation expense and remove the net impact to help the reader's ability to understand our core operating results and to increase comparability period to period.
- (3) This non-GAAP adjustment represents the other non-operating income (loss) and the net gains (losses) earned on our non-consolidated investment portfolio that are not designated as economic hedges of the supplemental savings plan liability, and non-consolidated seed investments and other investments that are not part of the cash and discretionary investment portfolio. We retain the investment gains recognized on our non-consolidated cash and discretionary investments as these assets and related income (loss) are considered part of our core operations. We believe adjusting for these non-operating income (loss) items helps the reader's ability to understand our core operating results and increases comparability to prior years. Additionally, we do not emphasize the impact of the portion of non-operating income (loss) removed when managing and evaluating our core performance.
- (4) The income tax impacts were calculated in order to achieve an overall non-GAAP effective tax rate of 23.9% for the first nine months of 2020 and 24.8% for the first nine months of 2019. As such, the non-GAAP effective tax rate for the third quarter was 24.1% in 2020 and 23.6% in 2019. We estimate that our effective tax rate for the full-year 2020 on a non-GAAP basis will be in the range of 23% to 25%.
- (5) This non-GAAP measure was calculated by applying the two-class method to adjusted net income attributable to T. Rowe Price Group divided by the weighted-average common shares outstanding assuming dilution. The calculation of adjusted net income allocated to common stockholders is as follows:

	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
Adjusted net income attributable to T. Rowe Price Group	\$ 602.7	\$ 521.7	\$ 1,596.6	\$ 1,480.4
Less: adjusted net income allocated to outstanding restricted stock and stock unit holders	16.8	13.3	44.1	37.7
Adjusted net income allocated to common stockholders	\$ 585.9	\$ 508.4	\$ 1,552.5	\$ 1,442.7

## **CAPITAL RESOURCES AND LIQUIDITY.**

### **Sources of Liquidity**

We remain debt-free with ample liquidity, including cash and investments in T. Rowe Price products, as follows:

(in millions)	9/30/2020	12/31/2019
Cash and cash equivalents	\$ 2,228.2	\$ 1,781.8
Discretionary investments	2,119.1	1,899.6
Total cash and discretionary investments	4,347.3	3,681.4
Redeemable seed capital investments	1,097.4	1,325.6
Investments used to hedge the supplemental savings plan liability	605.7	561.1
Total cash and investments in T. Rowe Price products	\$ 6,050.4	\$ 5,568.1

Our discretionary investment portfolio is comprised primarily of short duration bond funds, which typically yield higher than money market rates, and asset allocation products. Cash and discretionary investments returned gains

of \$25.6 million and \$50.2 million in the three- and nine-months ended September 30, 2020, respectively, as compared to investment gains of \$18.8 million and \$98.8 million in the three- and nine-months ended September 30, 2019, respectively. Cash and discretionary investments in T. Rowe Price products held by our subsidiaries outside the U.S. were \$778.7 million at September 30, 2020 and \$665.8 million at December 31, 2019. Given the availability of our financial resources and cash expected to be generated through future operations, we do not maintain an available external source of additional liquidity.

Our seed capital investments are redeemable, although we generally expect to be invested for several years for the products to build an investment performance history and until unrelated third-party investors substantially reduce our relative ownership percentage.

The cash and investment presentation on the unaudited condensed consolidated balance sheet is based on the accounting treatment for the cash equivalent or investment item. The following table details how T. Rowe Price Group's interests in cash and investments relate to where they are presented on the unaudited condensed consolidated balance sheet as of September 30, 2020.

(in millions)	Cash and cash equivalents	Investments	Net assets of consolidated T. Rowe Price investment products <sup>(1)</sup>	9/30/2020
Cash and discretionary investments	\$ 2,228.2	\$ 1,834.7	\$ 284.4	\$ 4,347.3
Seed capital investments	—	326.2	771.2	1,097.4
Investments used to hedge the supplemental savings plan liability	—	605.7	—	605.7
<b>Total cash and investments in T. Rowe Price products attributable to T. Rowe Price Group</b>	<b>2,228.2</b>	<b>2,766.6</b>	<b>1,055.6</b>	<b>6,050.4</b>
Investment in UTI and other investments	—	264.2	—	264.2
<b>Total cash and investments attributable to T. Rowe Price Group</b>	<b>2,228.2</b>	<b>3,030.8</b>	<b>1,055.6</b>	<b>6,314.6</b>
Redeemable non-controlling interests	—	—	1,340.2	1,340.2
<b>As reported on unaudited condensed consolidated balance sheet at September 30, 2020</b>	<b>\$ 2,228.2</b>	<b>\$ 3,030.8</b>	<b>\$ 2,395.8</b>	<b>\$ 7,654.8</b>

<sup>(1)</sup> The consolidated T. Rowe Price investment products are generally those products we provided seed capital at the time of their formation and we have a controlling interest. These products generally represent U.S. mutual funds as well as those funds regulated outside the U.S. The \$284.4 million and the \$771.2 million represent the total value at September 30, 2020 of our interest in the consolidated T. Rowe Price investment products. The total net assets of the T. Rowe Price investment products at September 30, 2020 of \$2,395.8 million includes assets of \$2,442.3 million, less the liabilities of \$46.5 million as reflected in our unaudited condensed consolidated balance sheets.

Our unaudited condensed consolidated balance sheet reflects the cash and cash equivalents, investments, other assets and liabilities of those T. Rowe Price investment products we consolidate, as well as redeemable non-controlling interests for the portion of these T. Rowe Price investment products that are held by unrelated third-party investors. Although we can redeem our net interest in these T. Rowe Price investment products at any time, we cannot directly access or sell the assets held by the products to obtain cash for general operations. Additionally, the assets of these T. Rowe Price investment products are not available to our general creditors. Our interest in these T. Rowe Price investment products was used as initial seed capital and is recategorized as discretionary when it is determined by management that the seed capital is no longer needed. We assess the discretionary investment products and, when we decide to liquidate our interest, we seek to do so in a way as to not impact the product and, ultimately, the unrelated third-party investors.

Additionally, in October 2020, UTI Asset Management Company Limited (India), one of our equity method investments, held an initial public offering in India. As part of the offering, we sold a portion of our 26% interest and received net proceeds of approximately \$28.0 million and recorded a net gain on the sale of approximately \$3.5 million in the fourth quarter of 2020. Subsequent to the sale, we have an ownership interest of 23% of UTI Asset Management Company Limited (India).

## Uses of Liquidity

We increased our quarterly recurring dividend per common share in February 2020 by 18.4% to \$.90 per common share from \$.76 per common share. Additionally, we expended \$1.2 billion in the first nine months of 2020 to repurchase 10.8 million shares, or 4.6%, of our outstanding common stock at an average price of \$108.77 per share. These dividends and repurchases were expended using existing cash balances and cash generated from operations. While opportunistic in our approach to stock buybacks, we will generally repurchase our common stock over time to offset the dilution created by our equity-based compensation plans.

Since the end of 2017, we have returned \$5.0 billion to stockholders through stock repurchases and our regular quarterly dividends, as follows:

(in millions)	Recurring dividend	Stock repurchases	Total cash returned to stockholders
2018	\$ 694.7	\$ 1,099.6	\$ 1,794.3
2019	733.6	708.8	1,442.4
Nine months ended 9/30/2020	635.3	1,170.7	1,806.0
Total	<u>\$ 2,063.6</u>	<u>\$ 2,979.1</u>	<u>\$ 5,042.7</u>

We anticipate property and equipment expenditures for the full-year 2020 to be about \$230 million, of which more than three-quarters is planned for technology initiatives. We expect to fund our anticipated capital expenditures with operating cash flows and other available resources.

## Cash Flows

The following table summarizes the cash flows for the nine months ended September 30, 2020 and 2019, that are attributable to T. Rowe Price Group, our consolidated T. Rowe Price investment products, and the related eliminations required in preparing the statement.

(in millions)	Nine months ended							
	9/30/2020				9/30/2019			
	Cash flow attributable to T. Rowe Price Group	Cash flow attributable to consolidated T. Rowe Price investment products	Elims	As reported	Cash flow attributable to T. Rowe Price Group	Cash flow attributable to consolidated T. Rowe Price investment products	Elims	As reported
Cash flows from operating activities								
Net income	\$ 1,589.3	\$ 1.6	\$ 2.8	\$1,593.7	\$ 1,586.0	\$ 165.7	\$(96.7)	\$1,655.0
Adjustments to reconcile net income to net cash provided by operating activities								
Depreciation and amortization of property and equipment	144.0	—	—	144.0	131.7	—	—	131.7
Stock-based compensation expense	164.5	—	—	164.5	136.1	—	—	136.1
Net (gains) losses recognized on investments	(72.5)	—	(2.8)	(75.3)	(234.0)	—	96.7	(137.3)
Net investments in T. Rowe Price investment products used to economically hedge supplemental savings plan liability	(19.1)	—	—	(19.1)	(20.5)	—	—	(20.5)
Net change in trading securities held by consolidated T. Rowe Price investment products	—	(350.8)	—	(350.8)	—	(688.1)	—	(688.1)
Other changes in assets and liabilities	458.8	2.5	(1.4)	459.9	428.8	(1.1)	(3.9)	423.8
Net cash provided by (used in) operating activities	2,265.0	(346.7)	(1.4)	1,916.9	2,028.1	(523.5)	(3.9)	1,500.7
Net cash provided by (used in) investing activities	(100.6)	(49.1)	96.6	(53.1)	(230.0)	(8.3)	161.6	(76.7)
Net cash provided by (used in) financing activities	(1,718.0)	393.9	(95.2)	(1,419.3)	(1,010.1)	544.8	(157.7)	(623.0)
Effect of exchange rate changes on cash and cash equivalents of consolidated T. Rowe Price investment products	—	3.4	—	3.4	—	(2.2)	—	(2.2)
Net change in cash and cash equivalents during period	446.4	1.5	—	447.9	788.0	10.8	—	798.8
Cash and cash equivalents at beginning of year	1,781.8	76.5	—	1,858.3	1,425.2	70.1	—	1,495.3
Cash and cash equivalents at end of period	\$ 2,228.2	\$ 78.0	\$ —	\$2,306.2	\$ 2,213.2	\$ 80.9	\$ —	\$2,294.1

### Operating Activities

Operating activities attributable to T. Rowe Price Group during the first nine months of 2020 provided cash flows of \$2,265.0 million as compared to \$2,028.1 million during the first nine months of 2019. Operating cash flows attributable to T. Rowe Price Group increased \$236.9 million, including \$203.6 million in higher non-cash adjustments, including unrealized investment gains/losses, depreciation, and stock-based compensation expense; timing differences on the cash settlement of our assets and liabilities of \$30.0 million; and the \$3.3 million increase in net income from the first nine months of 2019. The non-cash adjustments were driven by a \$161.5 million decrease in net investment gains in the first nine months of 2020 compared with the first nine months of 2019. Our interim operating cash flows do not include the cash impact of variable compensation that is accrued throughout the year before being substantially paid out in December. The remaining change in reported cash flows from operating activities was attributable to the net change in trading securities held in our consolidated investment products' underlying portfolios.

### Investing Activities

Net cash used in investing activities that are attributable to T. Rowe Price Group totaled \$100.6 million in the first nine months of 2020 compared with \$230.0 million in the 2019 period. During 2020, we received net proceeds from the sale of certain of our discretionary investments of \$141.6 million compared to net proceeds of \$77.0 million during 2019. In addition, while we increased our property and equipment expenditures by \$6.5 million, we decreased the level of seed capital provided by \$65.0 million. We eliminate our seed capital in those T. Rowe Price investment products we consolidate in preparing our unaudited condensed consolidated statement of cash flows. The remaining \$40.8 million change in reported cash flows from investing activities is related to the net cash removed from our balance sheet from consolidating and deconsolidating investment products.

### Financing Activities

Net cash used in financing activities attributable to T. Rowe Price Group were \$1,718.0 million in the first nine months of 2020 compared with \$1,010.1 million in the 2019 period. During 2020, there was a \$582.5 million increase in cash paid for common stock repurchases as we repurchased 5.1 million more shares of common stock in the first nine months of 2020 as compared to the first nine months of 2019. Additionally, there was a \$85.3 million increase in dividends paid in 2020 as a result of an 18.4% increase in our quarterly dividend per share. The remaining change in reported cash flows from financing activities is primarily attributable to a \$88.4 million decrease in net subscriptions received from redeemable non-controlling interest holders of our consolidated investment products during the first nine months of 2020 compared to the 2019 period.

### **CRITICAL ACCOUNTING POLICIES.**

The preparation of financial statements often requires the selection of specific accounting methods and policies from among several acceptable alternatives. Further, significant estimates and judgments may be required in selecting and applying those methods and policies in the recognition of the assets and liabilities in our unaudited condensed consolidated balance sheets, the revenues and expenses in our unaudited condensed consolidated statements of income, and the information that is contained in our significant accounting policies and notes to unaudited condensed consolidated financial statements. Making these estimates and judgments requires the analysis of information concerning events that may not yet be complete and of facts and circumstances that may change over time. Accordingly, actual amounts or future results can differ materially from those estimates that we include currently in our unaudited condensed consolidated financial statements, significant accounting policies, and notes.

There have been no material changes in the critical accounting policies previously identified in our 2019 Annual Report on Form 10-K.

### **NEWLY-ISSUED BUT NOT YET ADOPTED ACCOUNTING GUIDANCE.**

See Note 1 - The Company and Basis of Preparation note within Item 1. Financial Statements for a discussion of newly issued but not yet adopted accounting guidance.

## **FORWARD-LOOKING INFORMATION.**

From time to time, information or statements provided by or on behalf of T. Rowe Price, including those within this report, may contain certain forward-looking information, including information or anticipated information relating to: our revenues, net income, and earnings per share on common stock; changes in the amount and composition of our assets under management; our expense levels; our tax rate; and our expectations regarding financial markets, future transactions, dividends, stock repurchases, investments, new products and services, capital expenditures, changes in our effective fee rate, the impact of the coronavirus pandemic, and other market conditions. Readers are cautioned that any forward-looking information provided by or on behalf of T. Rowe Price is not a guarantee of future performance. Actual results may differ materially from those in forward-looking information because of various factors including, but not limited to, those discussed below and in Item 1A, Risk Factors, of this Form 10-Q and our Form 10-K Annual Report for 2019. Further, forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of unanticipated events.

Our future revenues and results of operations will fluctuate primarily due to changes in the total value and composition of assets under our management. Such changes result from many factors, including, among other things: cash inflows and outflows in the U.S. mutual funds, subadvised funds, separately managed accounts, collective investment trusts, and other investment products, fluctuations in global financial markets that result in appreciation or depreciation of the assets under our management, our introduction of new mutual funds and investment products, changes in retirement savings trends relative to participant-directed investments and defined contribution plans, and the impact of the recent coronavirus outbreak. The ability to attract and retain investors' assets under our management is dependent on investor sentiment and confidence; the relative investment performance of the U.S. mutual funds and other managed investment products as compared with competing offerings and market indexes; the ability to maintain our investment management and administrative fees at appropriate levels; competitive conditions in the mutual fund, asset management, and broader financial services sectors; and our level of success in implementing our strategy to expand our business. Our revenues are substantially dependent on fees earned under contracts with the T. Rowe Price funds and could be adversely affected if the independent directors of one or more of the T. Rowe Price funds terminated or significantly altered the terms of the investment management or related administrative services agreements. Non-operating investment income will also fluctuate primarily due to the size of our investments, changes in their market valuations, and any other-than-temporary impairments that may arise or, in the case of our equity method investments, our proportionate share of the investees' net income.

Our future results are also dependent upon the level of our expenses, which are subject to fluctuation for the following or other reasons: changes in the level of our advertising and promotion expenses in response to market conditions, including our efforts to expand our investment advisory business to investors outside the U.S. and to further penetrate our distribution channels within the U.S.; the pace and level of spending to support key strategic priorities; variations in the level of total compensation expense due to, among other things, bonuses, restricted stock units and other equity grants, other incentive awards, our supplemental savings plan, changes in our employee count and mix, and competitive factors; any goodwill or other asset impairment that may arise; fluctuation in foreign currency exchange rates applicable to the costs of our international operations; expenses and capital costs, such as technology assets, depreciation, amortization, and research and development, incurred to maintain and enhance our administrative and operating services infrastructure; the timing of the assumption of all third party research payments, unanticipated costs that may be incurred to protect investor accounts and the goodwill of our clients; and disruptions of services, including those provided by third parties, such as fund and product recordkeeping, facilities, communications, power, and the mutual fund transfer agent and accounting systems.

Our business is also subject to substantial governmental regulation, and changes in legal, regulatory, accounting, tax, and compliance requirements may have a substantial effect on our operations and results, including, but not limited to, effects on costs that we incur and effects on investor interest in T. Rowe Price investment products and investing in general or in particular classes of mutual funds or other investments.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

#### EQUITY PRICE RISK.

During the first quarter of 2020, the impact of the global coronavirus pandemic began to rapidly spread throughout the world and caused increasing disruption to populations, economic activity, and the global financial markets. While markets recovered sharply in the second and third quarters of 2020, the impact and ongoing uncertainty related to the pandemic continued into the end of September 2020. Since our investments in T. Rowe Price investment products are carried at fair value, these investments are subject to market risk. The following table presents the equity price risk from our investments in T. Rowe Price investment products. Investments in these products generally moderate market risk as they are diversified and invest in a number of different financial instruments. T. Rowe Price manages its cash and discretionary investments exposure to market risk by diversifying its investments among equity and fixed income portfolios. In addition, investment holdings may be altered from time to time in response to changes in market risks and other factors, as management deems appropriate. We do not actively manage the market risk related to our our seed capital investments.

In order to quantify the sensitivity of our investments to changes in market valuations, we have chosen to use a variant of each product's net asset value to quantify the equity price risk, as we believe the volatility in each product's net asset value best reflects the underlying risk potential as well as the market trends surrounding each of its investment objectives. The potential future loss of value, before any income tax benefits, of these investments at September 30, 2020 was determined by using the lower of each product's lowest net asset value per share during the first nine months of 2020 or its net asset value per share at September 30, 2020, reduced by 10%. In considering this presentation, it is important to note that: not all products experienced their lowest net asset value per share on the same day; it is likely that the composition of the investment portfolio would be changed if adverse market conditions persisted; and we could experience future losses in excess of those presented below.

(in millions)	Fair value 9/30/2020	Potential lower value	Potential loss	
Investments in T. Rowe Price products				
Discretionary investments	\$ 1,005.6	\$ 901.7	\$ 103.9	10 %
Seed capital not consolidated	160.0	74.5	85.5	53 %
Investments designated as an economic hedge of supplemental savings plan liability held at fair value	565.3	413.6	151.7	27 %
Total	\$ 1,730.9	\$ 1,389.8	\$ 341.1	20 %
Direct investment in consolidated T. Rowe Price investment products				
Discretionary investments	\$ 284.4	\$ 193.4	\$ 91.0	32 %
Seed capital	771.2	633.4	137.8	18 %
Total	\$ 1,055.6	\$ 826.8	\$ 228.8	22 %
Investment partnerships and other investments held at fair value	\$ 99.4	\$ 83.2	\$ 16.2	16 %

Any losses arising from the change in fair value of investments in T. Rowe Price products would result in a corresponding decrease, net of tax, in our net income attributable to T. Rowe Price Group.

The direct investment in consolidated T. Rowe Price investment products represents our portion of the net assets of the product. Upon consolidation of these products, our direct investment is eliminated, and the net assets of the products are combined in our consolidated balance sheet, together with redeemable non-controlling interests, which represents the portion of the products that is owned by unrelated third-party investors. Any losses arising from the change in fair value of our direct investments in consolidated T. Rowe Price investment products would also result in a corresponding decrease, net of tax, in our net income attributable to T. Rowe Price Group.

Further, we have investments that are used to economically hedge the change in our supplemental savings plan liability. Since we are hedging the liability, the impact on our net income attributable to T. Rowe Price Group would result from any ineffectiveness of this economic hedge.

#### **Item 4. Controls and Procedures.**

Our management, including our principal executive and principal financial officers, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2020. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures as of September 30, 2020, are effective at the reasonable assurance level to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, including this Form 10-Q quarterly report, is recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our principal executive and principal financial officers, has evaluated any change in our internal control over financial reporting that occurred during the third quarter of 2020, and has concluded that there was no change during the third quarter of 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **PART II – OTHER INFORMATION**

#### **Item 1. Legal Proceedings.**

On February 14, 2017, T. Rowe Price Group, Inc., T. Rowe Price Associates, Inc., T. Rowe Price Trust Company, current and former members of the management committee, and trustees of the T. Rowe Price U.S. Retirement Program were named as defendants in a lawsuit filed in the United States District Court for the District of Maryland. The lawsuit alleges breaches of ERISA's fiduciary duty and prohibited transaction provisions on behalf of a class of all participants and beneficiaries of the T. Rowe Price 401(k) Plan from February 14, 2011, to the time of judgment. The matter has been certified as a class action. T. Rowe Price believes the claims are without merit and is vigorously defending the action. Plaintiffs have filed a motion for partial summary judgment and defendants have filed a cross-motion for summary judgment, and briefing is underway. We cannot predict the eventual outcome, or whether it will have a material negative impact on our financial results, or estimate the possible loss or range of loss that may arise from any negative outcome.

On April 27, 2016, certain shareholders in the T. Rowe Price Blue Chip Growth Fund, T. Rowe Price Capital Appreciation Fund, T. Rowe Price Equity Income Fund, T. Rowe Price Growth Stock Fund, T. Rowe Price International Stock Fund, T. Rowe Price High Yield Fund, T. Rowe Price New Income Fund and T. Rowe Price Small Cap Stock Fund (the "Funds") filed a Section 36(b) complaint under the caption *Zoidis v. T. Rowe Price Assoc., Inc.*, against T. Rowe Price Associates, Inc. ("T. Rowe Price") in the United States District Court for the Northern District of California. The complaint alleges that the management fees for the identified funds are excessive because T. Rowe Price charges lower advisory fees to subadvised clients with funds in the same strategy. The complaint seeks to recover the allegedly excessive advisory fees received by T. Rowe Price in the year preceding the start of the lawsuit, along with investments' returns and profits. In the alternative, the complaint seeks the rescission of each fund's investment management agreement and restitution of any allegedly excessive management fees. T. Rowe Price believes the claims are without merit and is vigorously defending the action. This matter is in the discovery phase of litigation and we cannot predict the eventual outcome, or whether it will have a material negative impact on our financial results, or estimate the possible loss or range of loss that may arise from any negative outcome.

In addition to the matters discussed above, various claims against us arise in the ordinary course of business, including employment-related claims. In the opinion of management, after consultation with counsel, the likelihood of an adverse determination in one or more of these pending ordinary course of business claims that would have a material adverse effect on our financial position or results of operations is remote.

## Item 1A. Risk Factors.

Information regarding our risk factors appears in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on February 13, 2020. The following risk factor has occurred since previously reporting our risk factors in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

### **Our business, financial condition, and results of operation may be adversely affected by the recent coronavirus outbreak.**

Beginning in early 2020, global financial markets have been monitoring and reacting to the novel coronavirus pandemic. The spread of the coronavirus has created significant volatility, uncertainty and economic disruption to the global economy and may impact our business, financial condition and results of operations. In particular global financial markets have seen increased volatility and significant changes in the value of investments. If the value of our assets under our management decreases, our revenue and operating results could be materially impacted. Furthermore, while we have in place robust and well-established business continuity plans that address the potential impact to our associates and our facilities, and a comprehensive suite of technologies which enable our associates to work remotely and conduct business, no assurance can be given that the steps we have taken will continue to be effective or appropriate. In the event that our associates become incapacitated by the coronavirus, our business operations may be impacted, which could lead to reputational and financial harm. Since our revenue is based on the market value and composition of the assets under our management, the ultimate impact on global financial markets and our clients' decisions related to this event could adversely affect the Company's revenue and operating results.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) Repurchase activity during the third quarter of 2020 is as follows:

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
July	64,123	\$ 128.93	32,814	22,703,350
August	35,016	\$ 138.44	—	22,703,350
September	1,110,116	\$ 126.64	1,090,792	21,612,558
Total	1,209,255	\$ 127.10	1,123,606	

Shares repurchased by us in a quarter may include repurchases conducted pursuant to publicly announced board authorization, outstanding shares surrendered to the company to pay the exercise price in connection with swap exercises of employee stock options, and shares withheld to cover the minimum tax withholding obligation associated with the vesting of restricted stock awards. Of the total number of shares purchased during the third quarter of 2020, 85,649 were related to shares surrendered in connection with employee stock option exercises and no shares were withheld to cover tax withholdings associated with the vesting of restricted stock awards.

The following table details the changes in and status of the Board of Directors' outstanding publicly announced board authorizations.

Authorization Dates	7/1/2020	Total Number of Shares Purchased	Maximum Number of Shares that May Yet Be Purchased at 9/30/2020
February 2019	7,736,164	(1,123,606)	6,612,558
March 2020	15,000,000	—	15,000,000
	22,736,164	(1,123,606)	21,612,558

## Item 4. Mine Safety Disclosures.

Not applicable.

## Item 5. Other Information.

On October 29, 2020, we issued an earnings release reporting our results of operations for the third quarter of 2020 and the first nine months of 2020. A copy of that earnings release is furnished herewith as Exhibit 99.1 This information shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933.

## Item 6. Exhibits.

The following exhibits required by Item 601 of Regulation S-K are furnished herewith.

3(i)	Charter of T. Rowe Price Group, Inc., as reflected by Articles of Restatement dated June 20, 2018. (Incorporated by reference from Form 10-Q Quarterly Report filed on July 25, 2018.)
3(ii)	Amended and Restated By-Laws of T. Rowe Price Group, Inc. as of February 12, 2019. (Incorporated by reference from Form 8-K Current Report filed on February 13, 2019.)
15	Report from KPMG LLP, independent registered public accounting firm, re unaudited interim financial information.
31(i).1	Rule 13a-14(a) Certification of Principal Executive Officer.
31(i).2	Rule 13a-14(a) Certification of Principal Financial Officer.
32	Section 1350 Certifications.
99.1	Earnings release issued October 29, 2020, reporting our results of operations for the third quarter of 2020.
101	The following series of unaudited XBRL-formatted documents are collectively included herewith as Exhibit 101. The financial information is extracted from T. Rowe Price Group's unaudited condensed consolidated interim financial statements and notes that are included in this Form 10-Q Report.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on October 29, 2020.

T. Rowe Price Group, Inc.

By: /s/ Céline S. Dufétel  
Vice President, Chief Financial Officer and Treasurer

October 29, 2020

T. Rowe Price Group, Inc.  
Baltimore, Maryland

Re: Registration Statements No. 33-7012, No. 333-59714, No. 333-120882, No. 333-120883, No. 333-142092, No. 333-167317, No. 333-180904, No. 333-199560, No. 333-212705 , No. 333-217483, and No. 333-238319.

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated October 29, 2020 related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP

Baltimore, Maryland

I, William J. Stromberg, certify that:

1. I have reviewed this Form 10-Q Quarterly Report for the quarterly period ended September 30, 2020 of T. Rowe Price Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 29, 2020

/s/ William J. Stromberg  
President, Chief Executive Officer and Chairman of the Board of Directors

I, Céline S. Dufétel, certify that:

1. I have reviewed this Form 10-Q Quarterly Report for the quarterly period ended September 30, 2020 of T. Rowe Price Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 29, 2020

/s/ Céline S. Dufétel

Vice President, Chief Financial Officer and Treasurer

We certify, to the best of our knowledge, based upon a review of the Form 10-Q Quarterly Report for the quarterly period ended September 30, 2020, of T. Rowe Price Group, Inc., that:

- (1) The Form 10-Q Quarterly Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-Q Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of T. Rowe Price Group, Inc.

October 29, 2020

/s/ William J. Stromberg  
President, Chief Executive Officer and Chairman of the Board of Directors

/s/ Céline S. Dufétel  
Vice President, Chief Financial Officer and Treasurer



## NEWS RELEASE

### T. ROWE PRICE GROUP REPORTS THIRD QUARTER 2020 RESULTS

BALTIMORE (October 29, 2020) - T. Rowe Price Group, Inc. (NASDAQ-GS: TROW) today reported its results for the third quarter of 2020.

- **Assets under management end quarter at \$1.31 trillion**
- **Net client outflows of \$5.3 billion for Q3 2020**
- **Net revenues of \$1.6 billion for Q3 2020**
- **Diluted earnings per common share of \$2.73 for Q3 2020**
- **Adjusted non-GAAP diluted earnings per common share of \$2.55 for Q3 2020**
- **Long-term investment performance remains strong**

#### Financial Highlights

(in millions, except per-share data)	Three Months ended			Nine months ended		
	9/30/2020	9/30/2019	% change	9/30/2020	9/30/2019	% change
<b>U.S. GAAP basis</b>						
Investment advisory fees	\$ 1,469.3	\$ 1,303.4	12.7 %	\$ 4,090.9	\$ 3,767.8	8.6 %
Net revenues	\$ 1,595.8	\$ 1,426.7	11.9 %	\$ 4,473.8	\$ 4,149.2	7.8 %
Operating expenses	\$ 866.9	\$ 767.6	12.9 %	\$ 2,484.0	\$ 2,342.5	6.0 %
Net operating income	\$ 728.9	\$ 659.1	10.6 %	\$ 1,989.8	\$ 1,806.7	10.1 %
Non-operating income <sup>(1)</sup>	\$ 191.6	\$ 43.0	n/m	\$ 106.4	\$ 370.3	n/m
Net income attributable to T. Rowe Price Group	\$ 643.2	\$ 545.9	17.8 %	\$ 1,589.3	\$ 1,586.0	.2 %
Diluted earnings per common share	\$ 2.73	\$ 2.23	22.4 %	\$ 6.66	\$ 6.47	2.9 %
Weighted average common shares outstanding assuming dilution	229.4	238.2	(3.7)%	231.9	239.0	(3.0)%
<b>Adjusted non-GAAP basis<sup>(2)</sup></b>						
Operating expenses	\$ 830.5	\$ 765.1	8.5 %	\$ 2,434.2	\$ 2,286.3	6.5 %
Net operating income	\$ 768.0	\$ 664.2	15.6 %	\$ 2,046.9	\$ 1,869.2	9.5 %
Non-operating income <sup>(1)</sup>	\$ 25.6	\$ 18.8	n/m	\$ 50.2	\$ 98.8	n/m
Net income attributable to T. Rowe Price Group	\$ 602.7	\$ 521.7	15.5 %	\$ 1,596.6	\$ 1,480.4	7.8 %
Diluted earnings per common share	\$ 2.55	\$ 2.13	19.7 %	\$ 6.69	\$ 6.04	10.8 %
<b>Assets under Management</b> (in billions)						
Average assets under management	\$ 1,292.9	\$ 1,130.2	14.4 %	\$ 1,198.9	\$ 1,091.5	9.8 %
Ending assets under management	\$ 1,310.4	\$ 1,126.3	16.3 %	\$ 1,310.4	\$ 1,126.3	16.3 %

<sup>(1)</sup> The percentage change in non-operating income is not meaningful (n/m).

<sup>(2)</sup> Adjusts the GAAP basis for the impact of consolidated T. Rowe Price investment products, the impact of market movements on the supplemental savings plan liability and related economic hedges, investment income related to certain other investments, and certain nonrecurring charges and gains. The firm believes the non-GAAP financial measures provide relevant and meaningful information to investors about its core operating results. See the reconciliation to the comparable U.S. GAAP measures at the end of this earnings release.

## Management Commentary

William J. Stromberg, president and chief executive officer, commented: "We continued to operate successfully during these unprecedented times. Following a powerful market rebound in the second quarter, the S&P 500 Index hit an all-time high in Q3, surpassing its February 2020 peak. Stocks retreated a bit in September, and apprehensions around the durability of the economic recovery loomed as Congress failed to agree on new fiscal stimulus legislation.

"In this period of uncertainty, we continue to anchor to our culture and remain focused on delivering for our clients and our stockholders. More than ever, strong long-term performance, outstanding client service, and broadly scaled investment capabilities are critical for active asset managers. In the third quarter:

- Long-term investment performance remained strong. U.S. Equity, International Equity, and Multi-Asset continued to outperform on a long-term basis, with International Equity and Multi-Asset seeing particularly resilient results in the short-term. Fixed Income continued to show improvement, led by outperformance in our High Yield, Dynamic Global and Low Duration strategies.
- Despite solid performance, firmwide net outflows of \$5.3 billion were driven by ongoing pressure from passive in U.S. Equity, as well as a few institutional losses in U.S. Defined Contribution and some participant-level headwinds from the CARES Act. Nonetheless, we were pleased to see positive net flows in EMEA and APAC where we have been investing to strengthen our distribution capabilities.
- We brought to market our first four active exchange-traded funds (ETFs) in early August. The Blue Chip Growth, Dividend Growth, Equity Income, and Growth Stock ETFs are now available on the major custodial platforms, which will bring our strategic investing capabilities to an even broader U.S. Intermediaries audience. We have been pleased with the investor interest and how our ETFs have traded to date.
- We launched our sixth Japanese Investment Trust (ITM), the Global Technology ITM, and continued to develop our product pipeline, including a new Short Duration Income Fund, scheduled to launch in December, and the expansion of our sustainable product lineup.
- With the recent publication of the Principles for Responsible Investment (PRI) ratings for 2020, we were pleased to receive an 'A+' rating across each of the modules we report on, marking the third consecutive year in which we have been above the median in every category. These high ratings are a reflection of our ongoing efforts to further-integrate environmental, social and governance (ESG) factors into our investment process.
- Our balance sheet remained strong, and our approach to capital management remained unchanged. Buybacks of 1.1 million shares brought year-to-date repurchases to 10.8 million shares as of September 30.

“I am grateful to our associates for their ongoing commitment to delivering for our clients, and the resiliency that they continue to show through these extraordinary times.”

### Assets Under Management

During Q3 2020, assets under management increased \$90.4 billion to \$1.31 trillion. This increase was driven by market appreciation, partially offset by net cash outflows of \$5.3 billion. The firm acquired client contracts from PNC Bank in September 2020 that added \$1.2 billion of stable value assets under management. Clients transferred \$2.4 billion in net assets from the U.S. mutual funds to collective investment trusts and other investment products, of which \$1.6 billion transferred into the retirement date trusts. The components of the change in assets under management, by vehicle and asset class, are shown in the tables below.

(in billions)	Three months ended 9/30/2020				Nine months ended 9/30/2020			
	U.S. mutual funds	Subadvised funds and separate accounts	Collective investment trusts and other investment products	Total	U.S. mutual funds	Subadvised funds and separate accounts	Collective investment trusts and other investment products	Total
Assets under management at beginning of period	\$ 670.8	\$ 327.5	\$ 221.7	\$ 1,220.0	\$ 682.7	\$ 313.8	\$ 210.3	\$ 1,206.8
Net cash flows before client transfers	(3.9)	(.1)	(1.3)	(5.3)	(8.0)	7.0	4.4	3.4
Client transfers <sup>(1)</sup>	(2.4)	—	2.4	—	(11.2)	1.5	9.7	—
Net cash flows after client transfers	(6.3)	(.1)	1.1	(5.3)	(19.2)	8.5	14.1	3.4
Net market appreciation and gains	51.8	26.9	15.9	94.6	53.1	32.0	14.3	99.4
Net distributions not reinvested	(.1)	—	—	(.1)	(.4)	—	—	(.4)
Acquired AUM	—	—	1.2	1.2	—	—	1.2	1.2
Change during the period	45.4	26.8	18.2	90.4	33.5	40.5	29.6	103.6
Assets under management at September 30, 2020	\$ 716.2	\$ 354.3	\$ 239.9	\$ 1,310.4	\$ 716.2	\$ 354.3	\$ 239.9	\$ 1,310.4

(in billions)	Three months ended 9/30/2020				Nine months ended 9/30/2020			
	Equity	Fixed income, including money market	Multi-asset <sup>(2)</sup>	Total	Equity	Fixed income, including money market	Multi-asset <sup>(2)</sup>	Total
Assets under management at beginning of period	\$ 718.9	\$ 153.0	\$ 348.1	\$ 1,220.0	\$ 698.9	\$ 147.9	\$ 360.0	\$ 1,206.8
Net cash flows	(3.8)	4.7	(6.2)	(5.3)	.3	10.0	(6.9)	3.4
Net market appreciation and gains <sup>(3)</sup>	70.7	2.2	21.6	94.5	86.6	2.0	10.4	99.0
Acquired AUM	—	1.2	—	1.2	—	1.2	—	1.2
Change during the period	66.9	8.1	15.4	90.4	86.9	13.2	3.5	103.6
Assets under management at September 30, 2020	\$ 785.8	\$ 161.1	\$ 363.5	\$ 1,310.4	\$ 785.8	\$ 161.1	\$ 363.5	\$ 1,310.4

<sup>(1)</sup> Client transfers for subadvised funds and separate accounts as well as collective investment trusts and other investment products in the nine months ended September 30, 2020 have been updated to reflect an adjustment from the second quarter of 2020.

<sup>(2)</sup> The underlying assets under management of the multi-asset portfolios have been aggregated and presented in this category and not reported in the equity and fixed income columns.

<sup>(3)</sup> Includes distributions not reinvested.

Assets under management in the firm's target date retirement products, which are reported as part of the multi-asset column in the table above, were \$296.6 billion at September 30, 2020, compared with \$284.2 billion at June 30, 2020 and \$292.4 billion at December 31, 2019. These portfolios experienced net cash outflows of \$5.5 billion in Q3 2020 and \$5.0 billion in the first nine months of 2020.

Investors domiciled outside the United States accounted for 8.7% of the firm's assets under management at September 30, 2020 and 6.9% at December 31, 2019.

## **Financial Results**

**Net revenues** earned in Q3 2020 were \$1.6 billion, up 11.9% from Q3 2019. Average assets under management in Q3 2020 were \$1.29 trillion, an increase of 14.4% from Q3 2019. The firm voluntarily waived money market advisory fees in Q3 2020 of \$6.4 million to maintain positive yields for investors.

- Investment advisory revenues earned in Q3 2020 from the firm's U.S. mutual funds were \$939.5 million, an increase of 6.6% from Q3 2019. Average assets under management in these funds increased 9.0% to \$708.8 billion in Q3 2020 from Q3 2019.
- Investment advisory revenues earned in Q3 2020 from subadvised funds, separate accounts, collective investment trusts and other investment products were \$529.8 million, an increase of 25.4% from Q3 2019. Average assets under management for these products increased 21.8% to \$584.1 billion in Q3 2020 from Q3 2019.
- The annualized effective fee rate of 45.2 basis points in Q3 2020 decreased compared to the 45.6 basis points earned in Q2 2020, primarily due to the impact of increased assets from higher market valuations in certain products with tiered-fee structures and higher Q3 2020 money market fee waivers. The Q3 2020 annualized effective fee rate also decreased from the 45.8 basis points earned in Q3 2019 due to client transfers within the complex to lower fee vehicles or share classes over the last twelve months and the money market fee waivers. Over time, the firm's effective fee rate can be impacted by market or cash flow related shifts among asset and share classes, price changes in existing products, and asset level changes in products with tiered-fee structures.
- Administrative, distribution, and servicing fees in Q3 2020 were \$126.5 million, an increase of 2.6% from Q3 2019. The increase was primarily attributable to higher retail transfer agent servicing activities. This increase was partially offset by lower 12b-1 revenue earned on certain share classes, including the Advisor and R classes, of the U.S. mutual funds as client transfers to lower fee vehicles and share classes over the last twelve months have reduced assets under management in these share classes.

**Operating expenses** in Q3 2020 were \$866.9 million, an increase of 12.9% compared to Q3 2019. The increase in the firm's operating expenses from the 2019 quarter was primarily due to a \$33.3 million increase in expenses related to the supplemental savings plan from higher market returns, higher salaries and annual bonus accrual, and the firm's continued strategic investments. The higher Q3 2020 expense related to the supplemental savings plan liability was largely offset by the non-operating gains earned on the investments used to economically hedge the related liability.

On a non-GAAP basis, the firm's operating expenses in Q3 2020 were \$830.5 million, an 8.5% increase over Q3 2019. The firm's non-GAAP operating expenses do not include the impact of the supplemental savings plan and consolidated sponsored products. The increase in non-GAAP operating expenses is largely attributable to higher salaries and annual bonus accrual and the firm's continued strategic investments.

- **Compensation and related costs** were \$552.3 million in Q3 2020, an increase of 18.4% compared to Q3 2019. This increase was primarily related to the \$33.3 million in higher expense for the supplemental savings plan, as strong market returns in Q3 2020 increased the liability compared with a minor increase from market returns in Q3 2019. Higher salaries and benefits due to a 5.6% increase in our average staff size and modest increases in base salaries at the beginning of 2020, as well as a higher annual bonus accrual, also contributed to the increase in 2020 costs. These increases were partially offset by higher labor capitalization related to internally developed software. The firm employed 7,635 associates at September 30, 2020, an increase of 3.7% from the end of 2019.
- **Distribution and servicing costs** were \$73.5 million in Q3 2020, an increase of 14.0% from the \$64.5 million recognized in Q3 2019. The increase was primarily driven by higher distribution costs as a result of continued inflows into our Japanese ITMs in Q3 2020 compared to Q3 2019.
- **Advertising and promotion expenses** were \$14.2 million in Q3 2020, a decrease of 17.0% over Q3 2019. The decrease was primarily driven by fewer conference and promotional events in Q3 2020 compared to Q3 2019.
- **Technology, occupancy, and facility costs** were \$115.6 million in Q3 2020, an increase of 8.5% from the \$106.5 million recognized in Q3 2019. The increase was due to the ongoing investment in the firm's technology capabilities, including related depreciation and hosted solution licenses.
- **General, administrative, and other costs** were \$74.5 million in Q3 2020, a decrease of .9% compared with the \$75.2 million recognized in Q3 2019. The decrease was primarily due to lower travel-related expenses that were largely offset by higher professional fees and third-party investment research costs.

For the first nine months of 2020, operating expenses on a GAAP basis increased 6.0% compared to the same period of 2019, and 6.5% on a non-GAAP basis. The firm is narrowing its full-year 2020 non-GAAP operating expense growth guidance from a range of 3%-6% to a range of 4%-6%. The firm's non-GAAP operating expense growth in Q4 2020 compared to Q4 2019 is expected to be lower than that experienced year-to-date. For 2021, the firm currently estimates that its non-GAAP operating expenses will grow in the range of 6%-9%. These ranges include investments in the firm's critical strategic initiatives to promote long-term growth of the business. The firm could elect to further adjust its expense growth should unforeseen circumstances arise, including significant market movements.

**Non-operating income.** Non-operating income was \$191.6 million in Q3 2020, as compared to non-operating income of \$43.0 million in Q3 2019. The firm's consolidated investment products and supplemental savings plan hedge portfolio comprised about 70% of the net gains recognized during Q3 2020. The cash and discretionary investment portfolio added net investment gains of \$25.6 million during Q3 2020. The components of non-operating income for Q3 2020 and Q3 2019 are included in the tables at the end of this release.

**Income taxes.** The firm's effective tax rate was 24.1% in Q3 2020 and 22.4% in Q3 2019. The Q3 2020 effective tax rate increased from Q3 2019 primarily due to lower estimated annual net income attributable to redeemable non-controlling interests held in the firm's consolidated investment products, which are not taxable to the firm despite being included in pre-tax income; and lower discrete tax benefits associated with option exercises. These impacts were partially offset by a lower state effective tax rate, resulting primarily from the remeasurement of deferred tax liabilities related to the firm's investment portfolio.

The following reconciles the statutory federal income tax rate to the firm's effective tax rate for the third quarter and the first nine months of 2020 and 2019:

	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
Statutory U.S. federal income tax rate	21.0 %	21.0 %	21.0 %	21.0 %
State income taxes for current year, net of federal income tax benefits <sup>(1)</sup>	3.9	4.4	4.1	4.4
Net income attributable to redeemable non-controlling interests	(.3)	(.8)	—	(.8)
Net excess tax benefits from stock-based compensation plans activity	(.8)	(1.2)	(1.3)	(.9)
Other items	.3	(1.0)	.2	.3
Effective income tax rate	24.1 %	22.4 %	24.0 %	24.0 %

<sup>(1)</sup> State income tax benefits are reflected in the total benefits for net income attributable to redeemable non-controlling interests and stock-based compensation plans activity.

The firm's non-GAAP tax rate primarily adjusts for the impact of the consolidated investment products, including the net income attributable to the redeemable non-controlling interests. The firm's non-GAAP effective tax rate increased to 24.1% in Q3 2020 compared with 23.6% in Q3 2019 primarily due to lower discrete tax benefits associated with option exercises in the 2020 period. For the year-to-date period, the non-GAAP effective tax rate was 23.9% in 2020, down from the 24.8% for the comparable 2019 period. The year-to-date decrease is primarily due to a lower effective state tax rate and higher discrete tax benefits associated with option exercises.

The firm estimates that its effective tax rate for the full year 2020, on a GAAP and non-GAAP basis, will be in the range of 23% to 25%.

## Capital Management

T. Rowe Price remains debt-free with ample liquidity, including cash and investments in T. Rowe Price products as follows:

(in millions)	9/30/2020	12/31/2019
Cash and cash equivalents	\$ 2,228.2	\$ 1,781.8
Discretionary investments	2,119.1	1,899.6
Total cash and discretionary investments	4,347.3	3,681.4
Redeemable seed capital investments	1,097.4	1,325.6
Investments used to hedge the supplemental savings plan liability	605.7	561.1
Total cash and investments in T. Rowe Price products	<u>\$ 6,050.4</u>	<u>\$ 5,568.1</u>

- The firm's common shares outstanding were 226.4 million at September 30, 2020, compared with 235.2 million at the end of 2019.
- In the first nine months of 2020, the firm expended \$1.2 billion to repurchase 10.8 million shares, or 4.6%, of its outstanding common shares at an average price of \$108.77, including \$141.9 million to repurchase 1.1 million shares during Q3 2020.
- The firm invested \$155.4 million during the first nine months of 2020 in capitalized facilities and technology. The firm currently expects capital expenditures, including internal labor capitalization, for 2020 to be approximately \$230 million, of which more than three-quarters is planned for technology initiatives. These expenditures are expected to continue to be funded from the firm's operating resources.

## Investment Performance

The firm has expanded its performance disclosures to include specific asset classes and AUM weighted performance, mutual fund performance against passive peers, and composite performance against benchmarks. The following table presents investment performance for the one-, three-, five-, and 10-years ended

September 30, 2020. Past performance is no guarantee of future results.

<b>% of U.S. mutual funds that outperformed Morningstar median<sup>1,2</sup></b>				
	1 year	3 years	5 years	10 years
Equity	60%	67%	70%	85%
Fixed Income	55%	61%	59%	62%
Multi-Asset	83%	80%	88%	90%
All Funds	65%	69%	72%	79%
<b>% of U.S. mutual funds that outperformed passive peer median<sup>1,3</sup></b>				
	1 year	3 years	5 years	10 years
Equity	63%	67%	59%	65%
Fixed Income	63%	60%	55%	40%
Multi-Asset	76%	68%	61%	92%
All Funds	67%	65%	58%	65%
<b>% of composites that outperformed benchmarks<sup>4</sup></b>				
	1 year	3 years	5 years	10 years
Equity	56%	59%	70%	73%
Fixed Income	49%	50%	52%	68%
All Composites	53%	56%	63%	71%

## AUM- Weighted Performance

<b>% of U.S. mutual funds AUM that outperformed Morningstar median<sup>1,2</sup></b>				
	1 year	3 years	5 years	10 years
Equity	74%	79%	83%	92%
Fixed Income	49%	55%	55%	62%
Multi-Asset	91%	91%	97%	97%
All Funds	76%	80%	84%	90%
<b>% of U.S. mutual funds AUM that outperformed passive peer median<sup>1,3</sup></b>				
	1 year	3 years	5 years	10 years
Equity	77%	77%	73%	73%
Fixed Income	49%	46%	44%	34%
Multi-Asset	87%	91%	94%	96%
All Funds	77%	78%	76%	76%
<b>% of composites AUM that outperformed benchmarks<sup>4</sup></b>				
	1 year	3 years	5 years	10 years
Equity	59%	61%	67%	78%
Fixed Income	44%	47%	34%	73%
All Composites	56%	58%	62%	77%

As of September 30, 2020, 74 of 124 (60%) of our rated U.S. mutual funds (across primary share classes) received an overall rating of 4 or 5 stars. By comparison, 32.5% of Morningstar's fund population is given a rate of four or five stars<sup>(5)</sup>. In addition, 85%<sup>(5)</sup> of AUM in our rated U.S. mutual funds (across primary share classes) ended the third quarter of 2020 with an overall rating of four or five stars.

<sup>(1)</sup> Source: © 2020 Morningstar, Inc. All rights reserved. The information contained herein: 1) is proprietary to Morningstar and/or its content providers; 2) may not be copied or distributed; and 3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

<sup>(2)</sup> Source: Morningstar. Primary share class only. Excludes money market mutual funds, funds with an operating history of less than one year, T. Rowe Price passive funds, and T. Rowe Price funds that are clones of other funds. The top chart reflects the percentage of T. Rowe Price funds with 1-year, 3-year, 5-year, and 10-year track record that are outperforming the Morningstar category median. The bottom chart reflects the percentage of T. Rowe Price funds AUM that has outperformed for the time periods indicated. Total Fund AUM included for this analysis includes \$456B for 1 year, \$456B for 3 years, \$456B for 5 years, and \$449B for 10 years.

<sup>(3)</sup> Passive Peer Median was created by T. Rowe Price using data from Morningstar. Primary share class only. Excludes money market mutual funds, funds with an operating history of less than one year, funds with fewer than three peers, T. Rowe Price passive funds, and T. Rowe Price funds that are clones of other funds. This analysis compares T. Rowe Price active funds to the applicable universe of passive/index open-end funds and ETFs of peer firms. The top chart reflects the percentage of T. Rowe Price funds with 1-year, 3-year, 5-year, and 10-year track record that are outperforming the passive peer universe. The bottom chart reflects the percentage of T. Rowe Price funds AUM that has outperformed for the time periods indicated. Total AUM included for this analysis includes \$436B for 1 year, \$396B for 3 years, \$394B for 5 years, and \$377B for 10 years.

<sup>(4)</sup> Composite net returns are calculated using the highest applicable separate account fee schedule. Excludes money market composites. All composites compared to official GIPS composite primary benchmark. The top chart reflects the percentage of T. Rowe Price composites with 1-year, 3-year, 5-year, and 10-year track record that are outperforming their benchmarks. The bottom chart reflects the percentage of T. Rowe Price composite AUM that has outperformed for the time periods indicated. Total AUM included for this analysis includes \$1,207B for 1 year, \$1,195B for 3 years, \$1,180B for 5 years, and \$1,146B for 10 years.

<sup>(5)</sup> The Morningstar Rating™ for funds is calculated for funds with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. Morningstar gives its best ratings of 5 or 4 stars to the top 32.5% of all funds (of the 32.5%, 10% get 5 stars and 22.5% get 4 stars). The Overall Morningstar Rating™ is derived from a weighted average of the performance figures associated with a fund's 3-, 5-, and 10-year (if applicable) Morningstar Rating™ metrics.

## Other Matters

The financial results presented in this release are unaudited. The firm expects that it will file its Form 10-Q Quarterly Report for the third quarter of 2020 with the U.S. Securities and Exchange Commission later today. The Form 10-Q will include additional information on the firm's unaudited consolidated financial statements at September 30, 2020.

Certain statements in this earnings release may represent “forward-looking information,” including information relating to anticipated changes in revenues, net income and earnings per common share, anticipated changes in the amount and composition of assets under management, anticipated expense levels, estimated effective tax rates, and expectations regarding financial results, future transactions, new products and services, investments, capital expenditures, dividends, stock repurchases, changes in our effective fee rate, the impact of the coronavirus pandemic, and other market conditions. For a discussion concerning risks and other factors that could affect future results, see the firm's Form 10-Q for the third quarter for 2020 and 2019 Annual Report on Form 10-K.

Founded in 1937, Baltimore-based T. Rowe Price ([troweprice.com](http://troweprice.com)) is a global investment management organization that provides a broad array of mutual funds, subadvisory services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries. The organization also offers a variety of sophisticated investment planning and guidance tools. T. Rowe Price's disciplined, risk-aware investment approach focuses on diversification, style consistency, and fundamental research.

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**Unaudited Consolidated Statements of Income**  
(in millions, except per-share amounts)

	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
<b>Revenues</b>				
Investment advisory fees	\$ 1,469.3	\$ 1,303.4	\$ 4,090.9	\$ 3,767.8
Administrative, distribution, and servicing fees	126.5	123.3	382.9	381.4
<b>Net revenues</b>	<b>1,595.8</b>	<b>1,426.7</b>	<b>4,473.8</b>	<b>4,149.2</b>
<b>Operating expenses</b>				
Compensation and related costs	552.3	466.3	1,542.0	1,441.0
Distribution and servicing	73.5	64.5	201.2	195.3
Advertising and promotion	14.2	17.1	52.5	58.5
Product-related costs	36.8	38.0	118.0	115.6
Technology, occupancy, and facility costs	115.6	106.5	332.3	309.5
General, administrative, and other	74.5	75.2	238.0	222.6
<b>Total operating expenses</b>	<b>866.9</b>	<b>767.6</b>	<b>2,484.0</b>	<b>2,342.5</b>
<b>Net operating income</b>	<b>728.9</b>	<b>659.1</b>	<b>1,989.8</b>	<b>1,806.7</b>
<b>Non-operating income (loss)</b>				
Net gains on investments	84.6	32.1	100.6	194.0
Net gains on consolidated investment products	101.2	11.6	13.3	176.3
Other income (loss)	5.8	(.7)	(7.5)	—
<b>Total non-operating income</b>	<b>191.6</b>	<b>43.0</b>	<b>106.4</b>	<b>370.3</b>
Income before income taxes	920.5	702.1	2,096.2	2,177.0
Provision for income taxes	221.9	157.0	502.5	522.0
Net income	698.6	545.1	1,593.7	1,655.0
Less: net income (loss) attributable to redeemable non-controlling interests	55.4	(.8)	4.4	69.0
<b>Net income attributable to T. Rowe Price Group</b>	<b>643.2</b>	<b>545.9</b>	<b>1,589.3</b>	<b>1,586.0</b>
Less: net income allocated to outstanding restricted stock and stock unit holders	17.9	13.9	44.1	40.7
<b>Net income allocated to T. Rowe Price Group common stockholders</b>	<b>\$ 625.3</b>	<b>\$ 532.0</b>	<b>\$ 1,545.2</b>	<b>\$ 1,545.3</b>
<b>Earnings per share</b>				
Basic	\$ 2.75	\$ 2.26	\$ 6.73	\$ 6.55
<b>Diluted</b>	<b>\$ 2.73</b>	<b>\$ 2.23</b>	<b>\$ 6.66</b>	<b>\$ 6.47</b>
Weighted-average common shares				
Outstanding	227.0	234.9	229.5	235.8
Outstanding assuming dilution	229.4	238.2	231.9	239.0

The following table presents investment advisory revenues for the three- and nine-month periods ended September 30, 2020 and 2019, including a separate break out of revenue earned from our multi-asset portfolios. Prior year amounts have been recast to conform with the current year presentation.

Investment Advisory Revenues (in millions)	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
U.S. mutual funds				
Equity	\$ 636.3	\$ 570.2	\$ 1,750.6	\$ 1,641.4
Fixed income, including money market	66.6	70.7	205.1	208.6
Multi-asset	236.6	240.1	683.1	707.6
	<u>939.5</u>	<u>881.0</u>	<u>2,638.8</u>	<u>2,557.6</u>
Subadvised funds, separate accounts, collective investment trusts, and other investment products				
Equity	339.6	259.5	924.7	751.0
Fixed income, including money market	38.4	39.7	110.3	116.0
Multi-asset	151.8	123.2	417.1	343.2
	<u>529.8</u>	<u>422.4</u>	<u>1,452.1</u>	<u>1,210.2</u>
Total	<u>\$ 1,469.3</u>	<u>\$ 1,303.4</u>	<u>\$ 4,090.9</u>	<u>\$ 3,767.8</u>

Assets Under Management (in billions)	Average during				As of	
	Three months ended		Nine months ended		9/30/2020	12/31/2019
	9/30/2020	9/30/2019	9/30/2020	9/30/2019		
U.S. mutual funds						
Equity	\$ 433.4	\$ 384.4	\$ 398.9	\$ 371.5	\$ 442.3	\$ 407.1
Fixed income, including money market	78.1	73.3	76.0	71.3	77.6	73.7
Multi-asset	197.3	192.8	189.1	190.4	196.3	201.9
	<u>708.8</u>	<u>650.5</u>	<u>664.0</u>	<u>633.2</u>	<u>716.2</u>	<u>682.7</u>
Subadvised funds, separate accounts, collective investment trusts, and other investment products						
Equity	338.8	262.4	303.3	251.1	343.5	291.7
Fixed income, including money market	82.4	80.9	80.3	78.9	83.5	74.2
Multi-asset	162.9	136.4	151.3	128.3	167.2	158.2
	<u>584.1</u>	<u>479.7</u>	<u>534.9</u>	<u>458.3</u>	<u>594.2</u>	<u>524.1</u>
Total	<u>\$ 1,292.9</u>	<u>\$ 1,130.2</u>	<u>\$ 1,198.9</u>	<u>\$ 1,091.5</u>	<u>\$ 1,310.4</u>	<u>\$ 1,206.8</u>

Net Cash Flows After Client Transfers (by investment vehicle and underlying asset class) (in billions)	Three months ended	Nine months ended
	9/30/2020	9/30/2020
U.S. mutual funds		
Equity	\$ (4.4)	\$ (11.9)
Fixed income, including money market	1.4	3.4
Multi-asset	(3.3)	(10.7)
	<u>(6.3)</u>	<u>(19.2)</u>
Subadvised funds, separate accounts, collective investment trusts, and other investment products		
Equity	.6	12.2
Fixed income, including money market	3.3	6.6
Multi-asset	(2.9)	3.8
	<u>1.0</u>	<u>22.6</u>
Total net cash flows after client transfers	<u>\$ (5.3)</u>	<u>\$ 3.4</u>

Non-Operating Income (in millions)	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
	Net gains (losses) from non-consolidated T. Rowe Price investment products			
Cash and discretionary investments				
Dividend income	\$ 4.3	\$ 18.1	\$ 19.7	\$ 52.2
Market related gains and equity in earnings	21.3	.7	30.5	46.6
Total net gains from cash and discretionary investments	25.6	18.8	50.2	98.8
Seed capital investments				
Dividend income	.2	.2	1.4	1.0
Market related gains and equity in earnings	14.3	2.6	8.3	30.9
Net gain (loss) recognized upon deconsolidation	—	(.1)	.1	.1
Investments used to hedge the supplemental savings plan liability	33.3	1.7	29.2	44.8
<b>Total net gains from non-consolidated T. Rowe Price investment products</b>	<b>73.4</b>	<b>23.2</b>	<b>89.2</b>	<b>175.6</b>
Other investment income	11.2	8.9	11.4	18.4
<b>Net gains on investments</b>	<b>84.6</b>	<b>32.1</b>	<b>100.6</b>	<b>194.0</b>
Net gains on consolidated sponsored investment portfolios	101.2	11.6	13.3	176.3
Other income (loss), including foreign currency gains and losses	5.8	(.7)	(7.5)	—
<b>Non-operating income</b>	<b>\$ 191.6</b>	<b>\$ 43.0</b>	<b>\$ 106.4</b>	<b>\$ 370.3</b>

#### Unaudited Condensed Consolidated Cash Flows Information (in millions)

	Nine months ended					
	9/30/2020			9/30/2019		
	Cash flow attributable to T. Rowe Price Group	Cash flow attributable to consolidated T. Rowe Price investment products, net of eliminations	As reported on statement of cash flows	Cash flow attributable to T. Rowe Price Group	Cash flow attributable to consolidated T. Rowe Price investment products, net of eliminations	As reported on statement of cash flows
Cash provided by (used in) operating activities, including \$164.5 of stock-based compensation expense and \$144.0 of depreciation expense in 2020	\$ 2,265.0	\$ (348.1)	\$ 1,916.9	\$ 2,028.1	\$ (527.4)	\$ 1,500.7
Cash provided by (used in) investing activities, including \$(155.4) for additions to property and equipment, \$(240.3) of purchases and \$381.9 of dispositions to T. Rowe Price investment products in 2020	(100.6)	47.5	(53.1)	(230.0)	153.3	(76.7)
Cash provided by (used in) financing activities, including T. Rowe Price Group common stock repurchases of \$(1,158.5)* and dividends paid of \$(635.7) in 2020	(1,718.0)	298.7	(1,419.3)	(1,010.1)	387.1	(623.0)
Effect of exchange rate changes on cash and cash equivalents	—	3.4	3.4	—	(2.2)	(2.2)
Net change in cash and cash equivalents during period	\$ 446.4	\$ 1.5	\$ 447.9	\$ 788.0	\$ 10.8	\$ 798.8

\*Cash flows for stock repurchases reflect the impact of the timing of the settlement of these transactions at each period beginning and end.

Unaudited Condensed Consolidated Balance Sheet Information (in millions)	As of	
	9/30/2020	12/31/2019
Cash and cash equivalents	\$ 2,228.2	\$ 1,781.8
Accounts receivable and accrued revenue	714.8	646.6
Investments	3,030.8	2,939.8
Assets of consolidated T. Rowe Price investment products	2,442.3	2,276.9
Operating lease assets	139.2	110.8
Property and equipment, net	681.9	674.4
Goodwill	665.7	665.7
Other assets	231.7	234.4
<b>Total assets</b>	<b>10,134.6</b>	<b>9,330.4</b>
Supplemental savings plan liability	607.2	563.4
Total other liabilities, includes \$46.5 at September 30, 2020, and \$39.2 at December 31, 2019, from consolidated T. Rowe Price investment products	1,058.7	543.9
Redeemable non-controlling interests	1,340.2	1,121.0
Stockholders' equity, 226.4 common shares outstanding at September 30, 2020	\$ 7,128.5	\$ 7,102.1

#### Cash, Cash Equivalents, and Investments Information (in millions)

	Cash and cash equivalents	Investments	Net assets of consolidated T. Rowe Price investment products*	9/30/2020
Cash and discretionary investments	\$ 2,228.2	\$ 1,834.7	\$ 284.4	\$ 4,347.3
Seed capital investments	—	326.2	771.2	1,097.4
Investments used to hedge the supplemental savings plan liability	—	605.7	—	605.7
<b>Total cash and investments in T. Rowe Price products attributable to T. Rowe Price Group</b>	<b>2,228.2</b>	<b>2,766.6</b>	<b>1,055.6</b>	<b>6,050.4</b>
Investment in UTI and other investments	—	264.2	—	264.2
<b>Total cash and investments attributable to T. Rowe Price Group</b>	<b>2,228.2</b>	<b>3,030.8</b>	<b>1,055.6</b>	<b>6,314.6</b>
Redeemable non-controlling interests	—	—	1,340.2	1,340.2
<b>As reported on unaudited condensed consolidated balance sheet at September 30, 2020</b>	<b>\$ 2,228.2</b>	<b>\$ 3,030.8</b>	<b>\$ 2,395.8</b>	<b>\$ 7,654.8</b>

\* The \$284.4 million and \$771.2 million represent the total value at September 30, 2020, of T. Rowe Price's interest in the consolidated T. Rowe Price investment products. The total net assets of \$2,395.8 million at September 30, 2020, includes assets of \$2,442.3 million less liabilities of \$46.5 million as reflected in the unaudited condensed consolidated balance sheet information table above.

#### Non-GAAP Information and Reconciliation

The firm believes the non-GAAP financial measures below provide relevant and meaningful information to investors about its core operating results. These measures have been established in order to increase transparency for the purpose of evaluating the firm's core business, for comparing current results with prior period results, and to enable more appropriate comparison with industry peers. However, non-GAAP financial measures should not be considered as a substitute for financial measures calculated in accordance with U.S. GAAP and may be calculated differently by other companies.

The following schedules reconcile U.S. GAAP financial measures to non-GAAP financial measures for the three months ended September 30, 2020 and 2019.

Three months ended 9/30/2020						
	Operating expenses	Net operating income	Non-operating income (loss)	Provision (benefit) for income taxes <sup>(4)</sup>	Net income attributable to T. Rowe Price Group	Diluted earnings per share <sup>(5)</sup>
<b>U.S. GAAP Basis</b>	\$ 866.9	\$ 728.9	\$ 191.6	\$ 221.9	\$ 643.2	\$ 2.73
Non-GAAP adjustments:						
Consolidated T. Rowe Price investment products <sup>(1)</sup>	(1.7)	4.4	(101.2)	(18.1)	(23.3)	(.10)
Supplemental savings plan liability <sup>(2)</sup>	(34.7)	34.7	(33.3)	.6	.8	—
Other non-operating income <sup>(3)</sup>	—	—	(31.5)	(13.5)	(18.0)	(.08)
<b>Adjusted Non-GAAP Basis</b>	<u>\$ 830.5</u>	<u>\$ 768.0</u>	<u>\$ 25.6</u>	<u>\$ 190.9</u>	<u>\$ 602.7</u>	<u>\$ 2.55</u>
Three months ended 9/30/2019						
	Operating expenses	Net operating income	Non-operating income (loss)	Provision (benefit) for income taxes <sup>(4)</sup>	Net income attributable to T. Rowe Price Group	Diluted earnings per share <sup>(5)</sup>
<b>U.S. GAAP Basis</b>	\$ 767.6	\$ 659.1	\$ 43.0	\$ 157.0	\$ 545.9	\$ 2.23
Non-GAAP adjustments:						
Consolidated T. Rowe Price investment products <sup>(1)</sup>	(1.1)	3.7	(11.6)	4.6	(13.3)	(.05)
Supplemental savings plan liability <sup>(2)</sup>	(1.4)	1.4	(1.7)	(.6)	.3	—
Other non-operating income <sup>(3)</sup>	—	—	(10.9)	.3	(11.2)	(.05)
<b>Adjusted Non-GAAP Basis</b>	<u>\$ 765.1</u>	<u>\$ 664.2</u>	<u>\$ 18.8</u>	<u>\$ 161.3</u>	<u>\$ 521.7</u>	<u>\$ 2.13</u>

The following schedules reconcile certain U.S. GAAP financial measures for the nine months ended September 30, 2020 and 2019.

Nine months ended 9/30/2020						
	Operating expenses	Net operating income	Non-operating income (loss)	Provision (benefit) for income taxes <sup>(4)</sup>	Net income attributable to T. Rowe Price Group	Diluted earnings per share <sup>(5)</sup>
<b>U.S. GAAP Basis</b>	\$ 2,484.0	\$ 1,989.8	\$ 106.4	\$ 502.5	\$ 1,589.3	\$ 6.66
Non-GAAP adjustments:						
Consolidated T. Rowe Price investment products <sup>(1)</sup>	(4.4)	11.7	(13.3)	(1.3)	4.1	.02
Supplemental savings plan liability <sup>(2)</sup>	(45.4)	45.4	(29.2)	6.2	10.0	.04
Other non-operating income <sup>(3)</sup>	—	—	(13.7)	(6.9)	(6.8)	(.03)
<b>Adjusted Non-GAAP Basis</b>	<u>\$ 2,434.2</u>	<u>\$ 2,046.9</u>	<u>\$ 50.2</u>	<u>\$ 500.5</u>	<u>\$ 1,596.6</u>	<u>\$ 6.69</u>

	Nine months ended 9/30/2019					
	Operating expenses	Net operating income	Non-operating income (loss)	Provision (benefit) for income taxes <sup>(4)</sup>	Net income attributable to T. Rowe Price Group	Diluted earnings per share <sup>(5)</sup>
<b>U.S. GAAP Basis</b>	\$ 2,342.5	\$ 1,806.7	\$ 370.3	\$ 522.0	\$ 1,586.0	\$ 6.47
Non-GAAP adjustments:						
Consolidated T. Rowe Price investment products <sup>(1)</sup>	(4.3)	10.6	(176.3)	(23.7)	(73.0)	(.30)
Supplemental savings plan liability <sup>(2)</sup>	(51.9)	51.9	(44.8)	1.7	5.4	.03
Other non-operating income <sup>(3)</sup>	—	—	(50.4)	(12.4)	(38.0)	(.16)
<b>Adjusted Non-GAAP Basis</b>	<u>\$ 2,286.3</u>	<u>\$ 1,869.2</u>	<u>\$ 98.8</u>	<u>\$ 487.6</u>	<u>\$ 1,480.4</u>	<u>\$ 6.04</u>

- (1) These non-GAAP adjustments remove the impact that the consolidated T. Rowe Price investment products have on the firm's U.S. GAAP consolidated statements of income. Specifically, the firm adds back the operating expenses and subtracts the investment income of the consolidated T. Rowe Price investment products. The adjustment to operating expenses represents the operating expenses of the consolidated products, net of the elimination of related management and administrative fees. The adjustment to net income attributable to T. Rowe Price Group represents the net income of the consolidated products, net of redeemable non-controlling interests. Management believes the consolidated T. Rowe Price investment products may impact the reader's ability to understand the firm's core operating results.
- (2) This non-GAAP adjustment removes the compensation expense impact from market valuation changes in the supplemental savings plan liability and the related net gains (losses) on investments designated as an economic hedge against the related liability. Amounts deferred under the supplemental savings plan are adjusted for appreciation (depreciation) of hypothetical investments chosen by participants. The firm uses T. Rowe Price investment products to economically hedge the exposure to these market movements. Management believes it is useful to offset the non-operating investment income (loss) realized on the hedges against the related compensation expense and remove the net impact to help the reader's ability to understand the firm's core operating results and to increase comparability period to period.
- (3) This non-GAAP adjustment represents the other non-operating income (loss) and the net gains (losses) earned on the firm's non-consolidated investment portfolio that are not designated as economic hedges of the supplemental savings plan liability, and that are not part of the cash and discretionary investment portfolio. Management retains the investment gains recognized on the non-consolidated cash and discretionary investments as these assets and related income (loss) are considered part of the firm's core operations. Management believes adjusting for these non-operating income (loss) items helps the reader's ability to understand the firm's core operating results and increases comparability to prior years. Additionally, management does not emphasize the impact of the portion of non-operating income (loss) removed when managing and evaluating the firm's performance.
- (4) The income tax impacts were calculated in order to achieve an overall year-to-date non-GAAP effective tax rate of 23.9% for 2020 and 24.8% for 2019. As such, the non-GAAP effective tax rate for three months ended September 30, 2020 and 2019 was 24.1% and 23.6%, respectively. The firm estimates that its effective tax rate for the full-year 2020 on a non-GAAP basis will be in the range of 23% to 25%.
- (5) This non-GAAP measure was calculated by applying the two-class method to adjusted net income attributable to T. Rowe Price Group divided by the weighted-average common shares outstanding assuming dilution. The calculation of adjusted net income allocated to common stockholders is as follows:

	Three months ended		Nine months ended	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019
Adjusted net income attributable to T. Rowe Price Group	\$ 602.7	\$ 521.7	\$ 1,596.6	\$ 1,480.4
Less: adjusted net income allocated to outstanding restricted stock and stock unit holders	16.8	13.3	44.1	37.7
Adjusted net income allocated to common stockholders	<u>\$ 585.9</u>	<u>\$ 508.4</u>	<u>\$ 1,552.5</u>	<u>\$ 1,442.7</u>