T. Rowe Price Group Inc. (Q1 2023 Call)

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Corporate Speakers:
- Linsley Carruth; T. Rowe Price Group, Inc.; Director, Investor Relations
- Robert Sharps; T. Rowe Price Group, Inc.; Chief Executive Officer & President
- Jen Dardis, T. Rowe Price Group, Inc. - Chief Financial Officer & Treasurer

Participants:
- Daniel Fannon; Jefferies; Analyst
- Glenn Schorr; Evercore ISI; Analyst
- Patrick Davitt; Autonomous Research; Analyst
- Brennan Hawken; UBS Investment Bank; Analyst
- Alexander Blostein; Goldman Sachs Group; Analyst
- Ken Worthington; JP Morgan; Analyst
- Bill Katz; Credit Suisse; Managing Director
- Michael Cyprus; Moran Stanley; Analyst
- Finian O'Shea; Wells Fargo; Analyst
- Craig Siegenthaler; Bank of America; Managing Director

PRESENTATION

Operator: Good morning. My name is Shannon, and I will be your conference facilitator today. Welcome to T. Rowe Price's First Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded and will be available for replay on T. Rowe's website shortly after the call concludes.

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

Linsley Carruth: Hello and thank you for joining us today for our first quarterly earnings call. The press release and a new supplemental materials document can be found on our IR website at investors.troweprice.com and from the download link in the upper right of the webcast platform. Today's call will last 45 minutes. Our CEO and President, Rob Sharps and CFO, Jen Dardis, will discuss the company's results for a little over 15 minutes and then we'll open it up to your questions. We ask that you limit it to 1 question per participant.

I'd like to remind you that during the course of this call, we may make a number of forward-looking statements and reference certain non-GAAP financial measures. Please refer to the forward-looking statement language and the reconciliations to GAAP in the supplemental materials as well as in our press release and 10-Q.
Now I’ll turn it over to Rob.

**Robert Sharps:** Thank you, Linsley. And welcome to everyone joining us today for our inaugural earnings call. I’d like to start by saying that in rapidly evolving market conditions like the ones we experienced this quarter, what we deliver for our clients matters more than ever.

Our clients have entrusted us with over $1.3 trillion of assets, and we are deeply focused on helping them meet their long-term financial objectives. I’m pleased by how our teams have responded in these times, staying close to our clients, sharing insights and helping them navigate uncertainty. Our first quarter shows some encouraging signs. Markets posted gains and our investment performance showed signs of improvement.

However, the market environment remains uncertain, and our flows remain under pressure. In light of this uneven backdrop, we continue to carefully manage our financials to preserve our ability to invest in long-term initiatives to support growth. I remain confident in the long-term fundamental value that a global active investment management firm like T. Rowe Price can deliver, no matter the environment.

With that, I’ll provide an overview of the market context and our investment performance as well as an update on our strategic priorities before turning it over to Jen to review the quarterly financial results. Stocks in the U.S. and most other major equity markets recorded solid gains in the first quarter, although returns were trimmed by the banking turmoil in the U.S. and later Switzerland. Bonds also offered good returns as growth and interest rate expectations moderated. A flight to safety following the banking turmoil led to a sharp decrease in U.S. treasury yields, especially in the 2-year yield. The yield curve stayed inverted, however, which may be an indicator of the coming recession.

Stock returns in the U.S. varied markedly. Turmoil in the banking sector and signs of ebbing growth and inflation pressures led to lower treasury yields and boosted gross shares by increasingly implied value of future earnings. The NASDAQ Composite Index jumped nearly 17% and technology shares within the S&P 500 Index returned nearly 22%, including dividends during the first quarter. Conversely, declines in bank stocks and oil prices contributed to a modest overall decline in the small-cap Russell 2000 Value Index.

Monetary and fiscal tightening, healing supply chains and easing energy prices helped lower inflation in most major economies, even if not yet to central banker satisfaction. The annual headline inflation rate fell from 6.4% to 5% over the quarter in the U.S. and from 9.2% to 6.9% in the Eurozone with U.K. inflation being an outlier in both direction and magnitude.

In this choppy market environment, we saw our investment performance improve for some of our equity and fixed income strategies that struggled last year. While it was reassuring to see performance rebound in a number of key strategies in the first quarter, we are keenly aware that 1 quarter does not make a trend, especially in such an unsettled macro environment. Periods of market transition and elevated uncertainty can work to the advantage of quality active managers. Near-term dislocations often create long-term opportunities as the market refocuses on fundamental drivers such as valuation and earnings quality.
Our firm has navigated both sides of the investment performance cycle before. We persevered by adhering to our rigorous investment process and leveraging the insights generated by our global research platform. The solid long-term track record of our target date franchise reflects these strengths as does the performance of our value and core equity strategies last year. And I'm encouraged by the resilience of our U.S. equity research strategy, where more than 25 of our TRPA research analysts contribute to the portfolio in their focused area of expertise.

As a fundamental research-driven investment organization, our deep sector expertise and long-standing engagement with management teams is pivotal to understanding the long-term strategy and goals of the companies we invest in.

We are proud that among more than 330 asset management firms nominated, we came in a very close second in Institutional Investor’s inaugural 2023 ranking of America's top asset management firms. I am pleased that so many corporate voters recognized our differentiated research and corporate access model.

Despite these bright spots, net flows continue to be under pressure. As we reported, net outflows for the first quarter were $16.1 billion. The primary driver was net outflows in our large-cap growth equity strategies, reflecting both continued weak industry demand and the lagging impact of investment performance challenges in these strategies. While those net outflows were broad based, they were particularly apparent in our United States defined contribution investment only and broker-dealer channels. We continue to face headwinds with net flows to our large-cap growth strategies, but we expect that they will abate with sustained investment performance and time.

On the positive side, we recorded $7.5 billion of net inflows into the Target Date franchise and over $250 million in net flows in each of global multi-sector bond, U.S. dividend growth, U.S. taxable cash management, U.S. all-cap opportunities and U.S. short-term bond strategies during the quarter. We expect that we will return the firm to positive organic growth over time with a combination of more constructive markets, sustained improved performance in key strategies, traction with a broader range of vehicles and continued progress with our strategic initiatives.

Although excellent investment performance is central to our long-term success, our industry has gotten more competitive. We are committed to investing in the areas where we have scaled businesses such as our leading retirement franchise and to building capabilities to support future growth. We see an opportunity to elevate our focus on areas where we have already invested resources over many years and where we believe we have the greatest opportunity for growth and long-term success.

I would like to highlight some areas of focus and our progress against our strategic initiatives. We are bolstering our U.S. intermediary wealth channel, leveraging and extending the partnerships we have built. This quarter, we were named a top tier provider to another one of the largest intermediary firms in the industry. With this decision, we are now a top-tier partner with 6 of the 10 largest intermediary firms in this space. We are also broadening our range of products to ensure we deliver our investment
strategies in the vehicle of choice. As more advisers look to do more with fewer investment management partners, we are well positioned to build on these deep partnerships.

We are accelerating growth in international markets with a focus on unlocking growth in select countries where we have existing businesses that offer the greatest opportunity. During this quarter, I spent 2 weeks in Asia where we have 365 associates and clients representing $50 billion of assets under management. I had a chance to spend time with several of our clients and it reinforced for me the depth of relationships that we are building in the region and the opportunity that we have to do much more with them over time.

In our direct retail business, we are enhancing our individual investor client experience through an improved digital experience and differentiated service offering. We recently completed the acquisition of Retiree, Inc., a fintech firm that offers innovative retirement income planning software. This acquisition will complement and expand our retirement income capabilities across our audiences with planning tools for individuals and practitioner tools for financial professionals. We expect to use the technology in our retail direct defined contribution and wealth management channels.

Finally, we are expanding our private markets and alternative capabilities by leveraging our distribution channels and OHA's investment capabilities. As we previously shared, we acquired OHA to accelerate our expansion into alternative investments. Our first joint co-branded product, T. Rowe Price OHA Select Private Credit Fund, or OCREDIT, is advancing. This business development company is a retail product developed to leverage OHA's private credit investment expertise with T. Rowe Price's distribution capabilities. We expect to use the technology in our retail direct defined contribution and wealth management channels.

I am grateful to our associates around the world for focusing on delivering for our existing clients and for continuing to find new ways to bring what we do to a broader, more global base of clients.

I will now turn to Jen to cover our financial results for Q1.

**Jen Dardis:** Thank you, Rob, and hello, everyone. Today, I'll provide a summary of our financial results and key drivers, including assets under management and flows, revenue and operating expenses, and I'll conclude with a few comments on capital management before we take questions.

Our adjusted earnings per share was $1.69 for Q1 2023 versus $1.74 in Q4 2022 and $2.62 in Q1 2022. Compared with Q4 2022, adjusted operating income was up 3.7% to $528 million, primarily on a decline in expenses. A higher effective tax rate in the quarter drove the modest decline in adjusted EPS from Q1 2022. The change versus Q1 2022 reflects the decline in AUM and revenues from sharply lower markets and net outflows over the last 12 months.

Looking at the drivers behind these results, we ended the quarter with $1.3 trillion in AUM, an increase of $67 billion from December 31, 2022. Improving markets in Q1 increased assets by $83 billion, offset by $16 billion in net outflows. Our average assets for the quarter were $1.3 trillion, which was up 3% from Q4 2022, but down 15.2% from Q1 2022.
We've provided some detail on flows on Page 6 of the supplemental materials, but as Rob mentioned, outflows in Q1 were concentrated. We posted $23.5 billion of outflows in global equities with the majority of the net amount attributable to our U.S. large-cap growth equity strategies. On a channel view, outflows were largely focused in our U.S. DCIO and broker-dealer channels and with a few institutional clients. We experienced net outflows across all regions with the percentage of AUM sourced from outside the U.S., ending the quarter at 8.9%.

There were a few notable areas of strength in the quarter, including $7.5 billion of net inflows into the Target Date franchise, $1.3 billion of net inflows into international fixed income strategies and nearly $200 million of net inflows into alternatives. During Q1, we typically see some seasonality in Target Date flows in part due to planned sponsor lineup activity around the turn of the year.

We've provided an AUM inflows breakdown by institutional and retail client type, which replaces the vehicle views we have provided in the past. The assets and flows for global institutions and DC plans, including those we record keep and those we manage on an investment-only basis are reflected in the institutional bar. The retail assets and flows include both direct and intermediary sold retail accounts, including our platform and broker-dealer channels.

Our effective fee rate of 42.7 basis points for the quarter was a slight uptick from Q4 2022. This reflects a bit of noise from mix shift during the quarter. Over time, we continue to see modest downward fee pressure in line with new vehicle adoption and overall industry pricing headwinds.

Turning to revenues. Our Q1 adjusted net revenues were $1.5 billion, with $1.4 billion from investment advisory revenues. We saw a small increase in net investment advisory revenues from Q4 2022 on higher average assets versus the fourth quarter. Compared with Q1 2022, investment advisory revenues were down 16.3%, reflecting the decline in average AUM. Capital allocation based income for the quarter was $16.9 million. And as a reminder, capital allocation-based income includes the change in accrued carried interest from some of our alternative funds along with acquisition-related amortization.

Additionally, accrued carried interest will fluctuate quarter-to-quarter based on the underlying portfolio company-specific performance, along with the market environment at the end of each quarterly period. This quarter was down from Q1 2022 due to a more challenging market environment than a year ago. It was also down from Q4 2022 as that period included additional accrued carried interest to cover required tax distributions.

Typically, 50% to 60% of accrued carried interest is expected to be retained in operating income as the remainder is passed through to fund partners who are also employees and recognized as compensation expense. We've included additional details about accrued carried interest on Page 11 of the supplemental materials.

Now shifting to expenses. Adjusted operating expenses were about $1 billion, which is a decrease of 1.6% from Q1 2022 and down 4.7% from Q4 2022. The decline from Q4 2022 is largely driven by the
declines in compensations, benefits and related along with the accrued carried interest related compensation.

Compensation benefits and related costs, which excludes the carried interest-related compensation, was $593 million for the quarter, which was in line with Q1 2022 and down about $31 million from Q4 2022. Lower compensation expenses in Q1 primarily reflect lower stock-based compensation expense related to the firm's annual equity grant as well as the absence of severance and other costs associated with the workforce reduction action recognized in Q4 2022, which more than offset the Q1 impact of annual increases.

As a reminder, about 1/3 of our adjusted operating expenses excluding compensation related to carried interest, are driven by AUM and revenues. This is predominantly cash and stock-based incentive compensation and distribution expenses.

For the balance of the year, we maintain the prior guidance that we expect our adjusted operating expenses, excluding capital allocation-based income to grow in the range of 2% to 6% over the comparative full year 2022 amount of $4.1 billion.

Though we have started the year below the 2% to 6% range, the savings associated with the workforce reduction action in late 2022 will be offset through the year as we rehire for new skill sets aligned to our strategic initiatives. Based on the current market environment, we are trending to land at or below the midpoint of that range.

Our Q1 non-GAAP tax rate of 30.3% was outside the annual range we gave in January as we increased the valuation allowances recognized on certain foreign-based deferred tax assets, including net operating losses. Currently, we estimate our non-GAAP effective tax rate for the full year 2023 will be in the range of 26.5% to 29.5%.

In a more cash-constrained environment, we continue to prioritize the recurring dividend, which we increased for the 37th consecutive year since the firm's initial public offering in 1986. Our near-term focus beyond the dividend is to balance the needs for seed capital and opportunistic buybacks over the long term to offset dilution from the equity incentive programs and to preserve cash for potential M&A. In Q1, we initiated minimal stock buybacks. We expect to repurchase some during the remainder of the year, though not at the same level as 2021 and 2022 when we were offsetting the shares issued for the OHA purchase.

We've also been modestly rebuilding our cash position since the purchase of OHA in late 2021 to maintain our strong balance sheet. We added roughly $233 million in cash reserves in 2022.

We are more focused than ever on prioritizing investment in our strategic initiatives, maintaining efficient operations and carefully managing our cash position. This financial discipline gives us the strength to navigate through market volatility and stay focused on the long term.

With that, I'll ask the operator to open the line for Q&A.
QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question comes from the line of Daniel Fannon with Jefferies LLC.

Daniel Fannon: I was hoping you could give us a broader progress report on the OHA transaction. You talked about a product that's coming to market here. But more broadly, can you talk about their performance, what growth has been stand-alone because we know they were growing reasonably well before you bought them, but AUM hasn't really moved that much. So maybe just a little bit more context around that business today and what it's done since you've owned it? And maybe what you see as the opportunity over the next 12 to 24 months?

Robert Sharps: Thank you for the question. I would characterize our first year with OHA at a high level as very successful. We've integrated the appropriate functions and worked really hard to identify distribution synergies, the ability to take their strategies to institutional clients and prospects around the globe and also to take OHA capabilities into the wealth channel. I think the specific product that you're referring to is our T. Rowe Price OHA Credit BDC.

We've made a lot of progress with regard to the institutional seed and expect to launch it late this year in the wealth channel. In terms of their performance, it's remained quite strong. Their absolute results have been impacted by the difficult overall fixed income and credit markets over the course of the last year. And that's also impacted their incentive income and fees and carry, but their relative performance has remained very, very strong. So we're really pleased right now with the progress that we've made and feel very confident with regard to the opportunity and potential that our teams have together.

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

Glenn Schorr: Maybe a follow-on on OHA and broadened a little bit. I'm curious on how OHA and the T. Rowe Price fixed income teams can work together, can learn from each other? And maybe any observations you might have on trends in private versus public credit markets? And how you can design products, how you can learn from each other from that?

Robert Sharps: Yes, Glenn, we purposefully kept the investment teams largely separate. OHA had a 30-year track record of delivering great investment results for their clients in private credit and distressed in their liquid offerings. I do think there's some overlap in expertise, but we really wanted to minimize disruption in terms of the overall investment philosophy and process and in terms of the culture. We are exploring ways to leverage ideas across the 2 platforms and share perspectives, particularly at the industry level. But we don't have any intention of integrating the T. Rowe Price fixed income platform with the OHA platform. I think that was one of the tenants of the acquisition at the outset.

We are really, really focused on driving distribution synergy. We see a very large opportunity long term. Again, to take OHA to institutions around the globe, but also to take them into the broker-dealer and advisory channel. And that's a place where T. Rowe Price has very strong relationships at the home
office. It's a place where T. Rowe Price has very strong relationships and support in the field. Many of the wealth platforms have done business with OHA in the past in their more traditional structures and vehicles. And we're really excited for the opportunity to use more evergreen vehicles to take their capabilities there.

Again, we expect to show some progress in that regard later this year and think the opportunity will build. I will say that, in general, the demand for private credit broadly is a little softer than what it was 12 or 18 months ago. There's a denominator effect where people's allocation to private assets has risen as marks have lagged the decline in public markets. I think in general, particularly on the wealth platforms, a number of advisers and clients are more -- taking a more cautious approach. I think there's a lot on the sidelines.

And I think if you look at where spreads and absolute rates are now, the return and risk return profile of a well-managed private credit strategy is really compelling. So we do see substantial opportunity there. But I think the current demand and the current capital raising is softer than the trends that you would have seen if you go back to 2020, 2021 or early '22.

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

Patrick Davitt: So I appreciate the strong seasonal target date flows. But in that channel more broadly, any sign that last year's performance issues are driving plans or consultants to rethink having to run the lineup? And secondly, remind us how active you can be in those discussions? Or do you just find out after they make the decision?

Robert Sharps: Yes, I'll take the second part of the question first. We're very engaged and generally have the opportunity to share our outlook and give a performance update. I think that's not the case in every instance. We reach plans in a number of ways. In some instances, we are the record keeper and we have direct interaction. In some instances, we go directly to the plan sponsor. And in those instances, through a direct DCIO opportunity on another record keepers platform, have the opportunity to interact with the client or prospect. And in a number of instances, we work through aggregators or advisers. And there, we really are able to articulate our value proposition with those folks, and it's more indirect to the end client.

When I think about the target date business, first thing I would say is that, in general, people are less sensitive to near-term performance than they might be with single strategies. People tend to focus much more on 3-, 5- and 10-year results just given the nature of the objective being retirement and the long-dated return objective of retirement investing and savings. If you look at our flows in Q1, as you mentioned, they were very strong. I think our pipeline remains very robust. Long-term performance is important.

And when you have an active offering, ultimately, you're going to need to deliver it. I think if you look at our retirement date fund, it is -- it offers the strongest value proposition in the industry. We have a number of alpha-rich diversifiers in our building block lineup from noninvestment-grade credit to emerging markets in small and mid-cap equity areas where you can add a tremendous amount of value.
as an active manager. And I'm very confident that if you continue to look at rolling 3- and 5-year periods that our retirement date franchise will sort to the top and that we can continue to grow that franchise. And yes, I feel quite good about it.

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

Brennan Hawken: And thanks for hosting the earnings call. Really appreciate the increased transparency and chance to engage regularly. So on expenses, no change to the growth expectations. That's helpful and helpful to get the color around what the profile of the quarter -- the year will look like? Could you maybe give a breakdown of how much of this expense growth is tied to core inflation, maybe impact of the market-sensitive expenses? And then how much of the growth you are allocating to continued investments in the firm?

Jen Dardis: So I'll start, as a reminder, we had in the commentary that about 1/3 of our expenses are market-driven in some way, either related to assets under management or revenues. And so we typically look at the fluctuations during the quarter in markets to give a sense for what the range might be for those market-driven expenses. So that would be built into the guide that we have with the 2% to 6%. As far as investments in strategic initiatives, we haven't broken it out specifically, but last -- when we had the earnings release at the end of the year, we talked about the fact that we had taken actions last year that accounted for about $85 million worth of spend, that we had taken out of the expense base run rate coming out of the end of the year to be able to reinvest this year.

So that's about the level that we're looking at for investments in new things. Again, most of these are not new areas that we're investing in. There are extensions of existing places where we're already active either in a distribution sense or in a product construct. So again, not as many de novo investments, but further follow-on investments that we have in the business. If we think about the first part of your question about inflation, certainly, that's something that we saw midyear in the labor market context. We had announced that we had done an increase of 4% for 85% of our associates in salaries. And that impact has obviously rolled through into our expense base this year. But some of the steps we've taken have been to try to mitigate that headwind in the labor market. Obviously, we've also seen cost increases in other places where we have third-party spend. But again, trying to actively manage that as we go forward.

Robert Sharps: Yes. I would just say we really believe we have a big opportunity to drive share in U.S. wealth and in our focus markets around the world, but we also recognize that we need to drive efficiency and productivity in order to fund those investments going forward, and we're laser-focused on doing that.

Operator: Our next question comes from the line of Alexander Blostein with Goldman Sachs.

Alexander Blostein: Rob, a little bit maybe bigger picture question about sort of the firms’ EPS and operating income growth algorithm over the next couple of years. So as you sort of think about your comments regarding organic growth and organic base growth being maybe challenged for some period
of time, expense growth. Is it kind of like in this mid-single-digit range? So that obviously just kind of
comes down to the market, but do you see areas where you could flex expenses more where the sort of
earnings growth algorithm can improve given if organic growth remains challenged for some time?

Robert Sharps: Yes. Alex, thanks for the question. The first thing I would say is that we see a path back
to organic growth, but it is going to take some time. And in the interim, I do think we'll need to manage
expenses in order to bridge that gap. So as I've said before, we do want to continue to invest in our
strategic initiatives to get back to consistent organic growth. But we need to be very disciplined with
regard to how we get there.

Look, in terms of the algorithm, the market does play a big part when you have a $1.3 trillion AUM
installed base and where kind of over half of that is in equities. That said, flows can play a part in time.
Excess return and performance can play a part in time. Capital deployment can play a part in time.

We have a number of areas that I think can drive longer-term growth, whether it's OHA or deep
partnerships in the intermediary channel, whether it's continued growth in our focus markets. But, look,
I think it's realistic to say during this period of time where our flows are under pressure and our organic
growth is negative that we will have to be more focused on expenses and that there'll be just a less
robust overall EPS growth algorithm. And that's just the arithmetic of it.

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

Kenneth Worthington: Investors domiciled outside the U.S. was 9% in the quarter. This has historically
been a faster-growing part of the business that got to, I think, 9.9% at the end of '21 after the OHA deal
closed. I think you have allocated significant resources to this build-out outside the U.S. I guess, first,
are you getting the results commensurate with the resources allocated? And second, can you talk about
the outlook for returning the non-U.S. business growth towards better than enterprise growth period
again?

Jen Dardis: Thanks, Ken, and I appreciate the question. So as we look at the business outside the U.S.,
obviously, it's not a single market. Those are a number of individual markets, and we've been investing
across a series of focused markets outside the U.S. I would say, over the long term, we continue to see
growth out in those markets as an important leg of area for potential growth, particularly in core
markets in Japan and Australia, the U.K., Italy, Germany and Canada as we think about opportunities to
grow the business.

If we think about the near term and you're referencing, I believe, the first quarter flows, you can see
some lumpiness within that business because there are some institutional flows. And obviously, if we
think about the intersection between the comments we made on the large cap equity business and the
flows there, we have exposure to those asset classes in all of those markets as well.

So in the short term, you can see the impact of the same trends that we saw across the broader part of
the business. But over the long term, we expect that that's an opportunity for growth for us. And
specifically about the results that we're seeing for what we've invested there, I think we've been very
pleased with the places where we've made core investments. Rob mentioned during his comments, the client meetings that he had while he was in Asia, and we think there are some really good opportunities for us over the long term.

Robert Sharps: Yes. I would say our pipeline in Japan and Australia, in particular, is encouraging, Ken. But again, this is a business where there are some sizable mandates. And I don't think you can necessarily read quarter in and quarter out, you can make a trend. I do expect that this business will grow more quickly than the rest of the business, probably more so APAC than EMEA. But kind of overall, I think we're reasonably confident that if you look at it, you kind of want a 2- or 3-year planning horizon that the growth rates will be meaningfully higher than the overall book.

Operator: Our next question comes from the line of Bill Katz with Credit Suisse.

Bill Katz: Thank you for hosting the call and the added disclosure. It's very helpful. Just focusing on Page 6 of the supplement and thank you for the extra detail. It would appear that you're losing share across vehicle product and geography and maybe distribution channel. And I appreciate it's one quarter, but the last 5 quarters, it sort of seems as to be the trend. So how do you think about the urgency to drive better growth versus M&A? You mentioned the focus on sort of rebuilding cash. You have a very strong balance sheet to begin with. How much cash is necessary? And then how you think about incremental M&A to maybe catalyze overall organic growth?

Robert Sharps: Thanks for the question, Bill. The first thing I would say is in terms of share, there's a meaningful element of it that is mix related. I'll note that we have had positive flows in fixed income overall, which is above category. I think our target date results continue to be robust. We've had positive flows return in this category. But you're right, we have had meaningful outflows in parts of our equity franchise, and those parts of our equity franchise are a substantial part of the business. So kind of ultimately, I think if you look at that in aggregate, it has led to share loss over the more recent time horizon.

Look, we want to manage this business with a very long-term lens. I think that we do want to have more exposure to parts of the business, whether it is product or vehicle or asset class or geography that have more tailwinds of growth, and we think we can do that organically. But we also will continue to look very seriously at acquisition opportunities. But I think we have a very high bar for acquisitions. They need to have minimal disruption to our ability to deliver on our existing commitments to clients and our culture. They have to be a strategic fit. They have to make financial sense.

Most deals in this industry, the weight of the evidence would suggest that they haven't been compelling. So again, I think we will continue to look. And I think OHA and Retiree, were both examples of the sorts of things that can be meaningfully additive. OHA obviously much, much greater in scale and scope. But nonetheless, I mean, we think that M&A is a tool that can help us evolve our business mix and kind of help us build more growth into the business in time.

Operator: Thank you. Our next question comes from the line of Michael Cyprus with Morgan Stanley.
Michael Cyprus: You mentioned that you're looking to broaden out the range of products and vehicles. I was hoping you could elaborate on that where you see white space from a product standpoint and vehicle standpoint. And maybe you could talk a little bit about how you're building out the SMA platform and also active ETFs and some of the actions that you could take there to accelerate growth?

Robert Sharps: Sure. I'll start with ETFs. We have been in market for a couple of years. We just crossed $1 billion in AUM in our ETFs and I would say that momentum is building. Our first offerings in the equity space were semi-transparent, which was new. And I'd say it took a little while for advisers and investors to get comfortable with the semi-transparent approach. But as I say, we've been building substantial momentum with TCHP and with TDVG. We also are in market with some transparent active fixed income ETFs, which are also beginning to build momentum.

We will launch an additional series of ETFs toward the middle of this year and are really excited about the opportunity that those will bring. In mid-March, we filed registration statements with the SEC for 5 new active equity ETFs, a value ETF, a growth ETF, an international ETF, small and mid-cap ETF and the capital appreciation equity ETF and feel very good based on feedback that we've gotten from investors, advisers, and kind of users of ETFs that these will -- really allow us to meet the clearly strong demand in the ETF category, and ultimately will also allow us to be in market with ETF models using our asset allocation capabilities. So we'll be quite active and kind of really feel like we've got an approach that will allow us to continue to build momentum and have a bigger impact in ETFs.

In terms of SMA, we, last week -- or in late April, seeded 4 new muni SMAs, which will be available later in Q2. That will bring us to 20 strategies offered as SMAs. We have placement with all of the top 10 SMA distributors and kind of continuously hear feedback from the wealth platforms that they want to do more with fewer high-quality investment management firms and that they want strategies available across vehicle ranges. So mutual funds, ETFs, SMAs, model account delivery, et cetera.

I also would add, globally, we'd continue to scale vehicles that will allow us to penetrate the intermediary market in those focused markets that Jen mentioned earlier. And then finally, the BDC is a new vehicle and a new product for us. So I think we're investing to be top of mind and very relevant with our intermediary partners globally, again, whether that's at the home office level or in the field.

Jen Dardis: I would just add to that, beyond the products themselves and the vehicles that they're offered in, this intersects with the investments that Rob mentioned earlier, where we're making investments behind our distribution, sales, marketing teams with the U.S. wealth channel, where a lot of these vehicles are sold. And so it's not just developing the products and putting them out there but actually putting the marketing and sales resources behind it to make sure that we can pull those vehicles all the way through to the end client.

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

Finian O'Shea: Another for Oak Hill. Can you give us a sense of employee retention as the firm integrates into T. Rowe? And is OCredit intended to expand into direct lending as many of your peers focus on? Or might you draw on more of a mix of the firm's private credit capabilities.
Robert Sharps: With regard to OHA associate retention, there's really been no change. It's been very strong. That's a big part of the reason why we kept the investment platform separate again, to minimize disruption and to allow them to sustain their momentum. They've got great talent. And there's -- generally, in our business, some small amount of turnover, particularly among more junior associates. But we've seen -- we haven't, have not seen any regrettable attrition at the more senior associate or partner level at OHA. OCREDIT will have the opportunity to invest in both private and liquid credit. I think the target for OCREDIT is -- will be more in private credit, but kind of really will have flexibility to make investments where the risk return is most compelling.

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

Craig Siegenthaler: Rob, my question is a long-term one on the 401(k) business. From a timing standpoint, where do you think we are in the unbundling theme where 401(k) plan sponsors have been separating record keepers from asset manager? And I know this doesn't impact your bigger DCIO business, but we wanted your perspective on if the bulk of these migrations are now behind us?

Robert Sharps: Craig, I think it's difficult to say. This is a trend that's been unfolding for a relatively long period of time, and there continues to be consolidation in the record-keeping business. Recordkeeping is a scale business. That said, I think T. Rowe Price has a very compelling value proposition in RPS. And particularly in core market, we're growing the number of plans. And continuing to get attractive economics with the majority of the AUM on the plan managed by T. Rowe Price and in particular, having very strong representation of our Target Date Funds.

So, look, I think the trend towards consolidation and unbundling of asset management and record keeping is probably fairly far along. I also would say I think there will always be a place for a well done bundled recordkeeping offering in parts of the market, particularly in what we characterize as the core market, so below the large enterprise level, where I think you can really deliver a very compelling value proposition. And if you were to look at our plan count, if you were to look at our flows, I mean the core RPS market is a market that we're investing in. We're investing in our coverage and territories and one that we think will be a growth driver for us over the course of the next several years.

So while the unbundling trend, I think, is particularly important at the very large enterprise level, I don't think it's something that is a meaningful threat to our business. Again, as you mentioned, we have a very sizable representation in DCIO. We interact with the 401(k) market in a number of different ways, right? DCIO direct to the plan sponsor, DCIO through consultants and advisers, record-keeping where we sell directly to the plan sponsor, record-keeping through aggregators and advisers. Over 60% of our AUM is retirement related, and we've got a multipronged strategy to penetrate that opportunity.

I think we've got a great value proposition with, as I've mentioned before, our range of retirement date funds. So this is a business that I'm pretty enthusiastic about. And I would say I don't spend a lot of time thinking about the disaggregation of recordkeeping and asset management at the very large plan level. That's something that we've lived with for a decade or more.
Jen Dardis: And if anything, that's benefited us over time because as we've been able to bring our Target Date to plans, we don't record keep because obviously, we're not among the largest record keepers in the business as that consolidation has happened. So if anything, this trend has helped us to build the Target Date franchise over time.

Robert Sharps: Okay. I think that was the last question. In closing, I just thank you all for joining us today and for your interest in T. Rowe Price. As we shared, I think Q1 showed promising signs in the market backdrop and also some improved investment performance as well as strong Target Date net flows. And while the market environment remains uncertain, I'm very pleased with how our associates and our teams are responding. And we remain deeply committed and focused on helping our clients meet their long-term financial objectives. So again, thank you.

Operator: Thank you. That concludes today's call. You may now disconnect.