T. Rowe Price
Business Update

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Speakers:

Rob Sharps, CEO & President

Jen Dardis, CFO & Treasurer

Linsley Carruth, Director of Investor Relations

Linsley Carruth: Good morning and welcome everyone. My name is Linsley Carruth, T. Rowe Price's Director of Investor Relations. Thank you for joining us for this T. Rowe Price Business Update. Today, we'll start with about 15 minutes of prepared remarks from our CEO, Rob Sharps, and our CFO Jen Dardis, which will be followed by a Q&A period, and then a brief wrap up from Rob. Questions can be submitted at any time in the question box on your screen. The slides you'll see on the screen are available to download from this webcast portal and also available on our IR website. Before we start, I'd like to remind you that this presentation and other statements that T. Rowe Price may make may contain forward-looking statements with respects to T. Rowe Price future financial or business performance strategies, or expectations. T. Rowe Price cautions that forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which can change over time and actual results could differ materially from the forward-looking statements. With that done, I'm very pleased to introduce Rob Sharps, our Chief Executive Officer. Rob.

Rob Sharps: Good morning. Thank you, Linsley, and thank you all for joining us. I'd like to start by sharing some of my perspective on T. Rowe Price, both as a new CEO and as a 25-year veteran of the company. I'll address where we are today, some of the challenges that we're facing, as well as where we're headed and many of the opportunities that we see. If I take a step back, I genuinely believe we have a unique firm. For 85 years now, our sole mission has been to help our clients achieve their financial goals, and our focus has been on generating strong long-term investment outcomes for clients today. Our vision is to be among the premier investment managers in the world. We have a global and multi-asset investment platform and an excellent culture, which puts clients first and is built around collaboration, trust, and mutual respect.

We have industry leading talent, notably experienced and skilled research analysts and portfolio managers who generate valuable insight and have demonstrated the ability to deliver strong results for our clients over the vast majority of rolling time horizons. We have a dedicated and talented team of client-facing and corporate associates who are committed to our clients, our shareholders, and each other. We reach clients in multiple channels around the globe, both directly and through intermediaries. T. Rowe Price is financially resilient with robust cash generation and a strong balance sheet. Our goal is to build on these strengths going forward.

Despite these many strengths, we are facing industry headwinds. The most impactful being market share shifts from active to passive, from public markets to private, and from open-ended mutual funds to exchange traded funds, collective investment trusts, and SMAs. These trends have been affecting our industry and our company for several years and are likely to persist for the foreseeable future. Recently, we've also faced a series of transitory challenges, including declining markets, the rotation away from growth, subpar performance in certain U.S. equity strategies, and inflationary pressures on wages and other expenses.

Over the last several years, our management team has taken steps to address industry headwinds, keep pace with evolving client needs and diversify our net flows. The most important of these include investing in our fixed income and multi-asset capabilities, broadening our suite of retirement date offerings and sharpening our pricing, growing our presence in Europe and Asia, deepening our coverage of the wealth channel in the United States, launching new vehicles, including eight ETFs, developing new investment strategies, broadening investment capabilities, including ESG, private placements and investment data insights, our data and analytics platform, launching a new investment advisor, T. Rowe Price Investment Management or TRPIM to sustain our performance in our culture and acquiring OHA, an alternative credit manager.

Until 2021, the combination of these initiatives and market share gains in U.S. equities allowed T. Rowe Price to generate modest organic growth, despite long-term pressures on U.S. Equities as an asset class and mutual funds as a vehicle. However, over the last year, our net flows have turned negative. We attribute this partially to a rapid downturn in global markets, which has depressed flows across the industry. That said, T. Rowe Price has been hit particularly hard by a rotation from growth to value and soft performance in certain areas, including our sizeable U.S. large cap growth franchise. We expect pressure on flows to persist until the market environment is more constructive, our performance in those strategies recovers, and our growth initiatives gain traction. I am confident, however, that a combination of improved investment performance, our ongoing growth initiatives and future initiatives under evaluation will allow us to stabilize our net flows and return to growth in time.

As I mentioned, certain of our U.S. growth strategies, including some of our largest by AUM, have recently delivered weak returns on both an absolute and relative basis. Regardless, we remain confident in our abilities and these teams. Our research resources are robust and our investment processes are sound. By adhering to our investment process and leveraging our global research platform, we have been able to sustain strong, long-term performance across a broad range of strategies. Indeed, many of our equity and fixed income strategies are performing well in the current environment, including Dynamic Global Bond, US Structured Research, Dividend Growth, Mid-Cap Growth, Mid-Cap Value, and Capital Appreciation. Collectively, our mutual funds continue to show strong relative performance against their Morningstar peers over three, five, and ten years. Likewise in aggregate, our composites have performed well relative to their benchmark over three, five, and ten years.

Looking ahead, our strategic priorities include consistently delivering stronger investment performance, deepening relationships with existing clients, including strategic partnerships with platforms and aggregators, reaching new clients and select channels and markets domestically and abroad, offering a broader range of strategies in ETFs and SMAs, growing our suite of retirement date strategies, growing our fixed income business globally, and growing in our alternatives business with OHA, and partnering with them over time to build a broader private markets alternative business.

I would like to note that we will continue to invest to support our U.S. equity strategies and mutual funds as a vehicle despite the long-term headwinds. While mature, both are scaled, profitable, and strategically important. U.S. equities are not only our largest asset class, they're an essential component of our retirement and global equity strategies while mutual funds remain important to retirement plans, wealth platforms, and many individual investors.

Before turning to Jen, I want to spend a minute on the OHA acquisition, which we announced last October and closed in December. The bottom line is that I'm proud of the work that our teams have done to bring the best of the two organizations together. OHA's investment teams continue to perform at a high level with strong relative performance while navigating a very challenging market environment. And OHA has been successful in securing new capital commitments from some of the world's most sophisticated investors since our deal closed. The T. Rowe and OHA client-facing teams are already driving distribution synergies, and we are jointly developing new products to address the wealth channel. Our progress and learnings over the last several months make me even more excited about our combined potential. With that, I'd like to turn it over to Jen to do a financial overview.

Jen Dardis: Thanks, Rob. We're proud of our long track record of delivering value for stockholders. As shown on the left-hand side of this slide, over five, ten, 20, and 30-year period, we've achieved consistent growth in earnings while investing in the future growth of the business. In the near-term, on the right side, you can see that given the market context, our revenues are down 10% in the first half of 2022. This is driven by lower assets under management as Rob outlined and lower average fee from both the changes we made to our target date suite pricing in 2021 and overall mix of our assets under management this year. This is partially offset by the revenues from OHA that are on our books beginning in 2022.

While we've taken steps to slow expense growth in 2022, we try to manage our expense base in a more gradual slope, both up and down. As a result, non-GAAP expenses were up while revenues declined in the first half. Net of these effects, non-GAAP EPS was down 30% in the first half of 2022 versus 2021. We continue to expect non-GAAP expense growth of 4% to 7% in 2022, though this remains subject to market conditions for the balance of the year. This expense growth level does include the compensation increases we made for roughly 85% of our associates earlier this year and the addition of OHA in our 2022 results versus 2021. Excluding the impact of OHA, our expense forecast will be roughly flat versus 2021. While we plan to continue to invest in strategic priorities at a moderated pace, market-driven expenses are expected to be down for the year.

This slide shows some additional detail on our net flows by asset class. Keep in mind, flows are the results of sales net of redemptions. And while our redemption rate varies by client type and market environment, the average tends to run in the range of 22% to 25% annually. Outflows in equities are the primary difference between our results in 2021 and 2022 versus the prior periods of 2017 to 2020. In the years prior to 2021, across our broad range of equity products spanning across U.S., global and international, growth and value, and across the cap spectrum, we have seen some in inflow and some in outflow netting to about flat.

In 2021 and the first half of 2022, we've seen most equity strategies in net outflow. We are starting to see the return of some pockets of net inflows in equities, including in US Structured Research, our equity research strategy, but overall equity redemptions remain higher and sales are still slightly more muted than history. Fixed income and multi-asset have been a positive driver of flows in most time periods, and we expect this to continue based on both investments we have made over the last several years to diversify our business by asset class, client type, geography, and due to continued client demand. Alternatives adds another positive driver of current and future flows, and also has a positive impact on our effective fee rate over time.

Looking at a little deeper at our expense growth, I want to give you a sense for how we think about expenses and investment in the business. As a reminder, these numbers exclude OHA as they were prior to the acquisition at the end of 2021. About a third of our expenses are market-driven and track with either assets under management or revenues. The balance or what we are calling here core expenses that we manage through market cycles to support our current business and invest in new capabilities. Growth in the core reflects things like our build-out of distribution in EMEA and APAC, build-out of our broker dealer sales and client service force, expansion of our product suites in fixed income, international and global equity, and the suite of vehicles to support a broad range of clients, as well as modernization of our technology stack to support our investment professionals, clients, and associates.

In times when markets rise sharply, we tend to realize margin expansion as we did in 2021. And in time of sharp market decline, we tend to see margins contract, as we're seeing in 2022. Over longer periods of time, we strive to deliver operating margins above the average of our public peer set. Our strong financial position allows us to sustain investment in our key priorities through all market cycles, and we think that is really important to support long-term growth. That said, we have taken steps to slow our expense growth this year, and to provide funding for a portion of our growth initiatives. We've done this through a more focused lens on prioritization, as well as execution of cost savings opportunities through modernization. If market conditions deteriorate further from here, we would consider other levers to reduce expense growth.

I reference our strong financial position and this summary balance sheet highlights our strong cash position with $2.6 billion in cash and discretionary investments at June 30th and limited debt. The $102 million in debt supports OHA's European CLOs and was acquired as part of the transaction. This balance sheet position along with recurring cash generation gives us flexibility to invest in the business and to maintain optionality for future M&A while continuing to provide strong return of capital for our stockholders.

We have sustained our return of capital alongside our investments for growth. We've increased the annual recurring dividend for 36 years since the IPO. Dividends increased 108% over the seven-year period shown since 2015, going from $2.08 cents per share in 2015 to $4.32 cents per share in 2021, and we are up another 11% in 2022. Stock buybacks have been running about a billion dollars per year over the last four years as we've been opportunistic, but persistent in reducing share count. While there's no change in our philosophy to buybacks or dividends, we will continue to balance this stance with potential M&A to add new capabilities, should that opportunity arise. Through June 30th of this year, we had already repurchased 3.767 million shares, significantly offsetting the 4.4 million shares we issued for the OHA acquisition at the end of 2021. This concludes our prepared remarks and Rob and I are happy to take your questions, Linsley Carruth will facilitate.

Linsley Carruth: Thank you, Jen. We've got a number of questions already in the queue. So we're going to start with two questions that are related on target date. The first one is from Patrick Davitt from Autonomous Research and he writes, I think you have said in the past that retirement plans usually make plan lineup decisions in December 4th quarter. So through the lens of the poor one-year performance and continued fiduciary lawsuit pressure, do you think you could see elevated plan drops later this year? Rob?

Rob Sharps: We aren't seeing increased pressure and we aren't forecasting elevated plan losses this year. Plan sponsors generally have exposure to a broad range of strategies and evaluate performance over a long-time horizon. But most the concentrated exposure on most plans is the qualified default option, the retirement date fund, or target date fund. Our RDF performance is quite good over periods beyond one year, and we believe we have a very strong offering and value proposition.

Linsley Carruth: There was a related question from Craig Siegenthaler at Bank of America that touches on some of the same pieces, but also about unbundling, so let me read that question to you. Can you update us on the competitive landscape and the target date fund business, given an increase in the rotation to low fee passive and also the 401k unbundling trend?

Rob Sharps: Yeah, neither of those trends are new. Passive's been gaining market share, and there have been lawsuits in the market for a very long period of time. It's an intensely competitive market and it's fee-sensitive. That said, we believe we have a great product with alpha-rich building blocks and very thoughtful strategic and tactical asset allocation. I think it's a differentiated product. I think it's a premium product and the results that we've delivered over time proved that out. That said, we have invested in fee reductions to enhance the value proposition. And we've also developed and are offering a blend series with greater exposure to passive that will be attractive to plan sponsors that are more fee-sensitive and certain segments of the market in particular, are much more fee-sensitive. If you look at our flows in the retirement date funds, they've continued to be quite strong. So we really don't see any change in what has been an intensely competitive marketplace for quite some time.

Jen Dardis: I would add to that, the question about unbundling and just to remind everyone that we not only offer our target date products through our record keeping business where we actually record keep the assets, but a larger portion of those target date assets are available on a defined contribution investment only, DCIO-basis, which means we're not doing the record keeping we're actually providing that product onto other people's platforms. So that's been part of the deliberate build for us over time to face the trends of unbundling.

Linsley Carruth: So we're going to switch gears and have a couple of questions related to expenses now. So we will start with two related to expense growth. I'm going to read actually both of them together, since I think you can answer them together. Brennan Hawken from UBS asks, how should we think about expense growth in 2023 and Dan Fannon from Jeffries asks, can you discuss long-term expense growth outlook as you think about 2023 and beyond?

Jen Dardis: Yeah, we're working through our planning for this year, and I think as we continue to take the same stance. Obviously, we're going to be mindful of the market conditions as we look into next year. We are taking a harder lens and looking at prioritization to make sure that as we think about our strategic priorities that we're investing in those that will drive the most opportunities for growth in the near-term and for the longer-term. If we think about that core versus market-driven, we'll be keeping an eye on where things go from a market's perspective. I would expect that core to be sort of adding moderated paces we've seen this year, but continuing into next year, unless we see a pretty significant change in market conditions.

Linsley Carruth: Right. And staying on the expense topic for a moment, Mike Cyprys from Morgan Stanley asks, can you expand on what cost savings have been achieved so far and actions taken? What other levers would you consider to reduce expense growth?

Jen Dardis: Yeah, I'll start, and then Rob if you have anything to add. I'd say in three areas we've been looking at expenses this year and it's the typical things that you'd start with, a harder look at our third-party spend and making sure that we're being as efficient as we possibly can there. Second is a slowdown in hiring. And again, that's just about prioritization, making sure that the roles that we hire during this timeframe are the most strategic to our long-term efforts. And then we have some longer-term efforts that we continue to execute that take longer that also requires some investment, but yield savings over time. An example of that is the transaction, the agreement we entered into with FIS last year to expand our partnership with them, with our record keeping business and our back office servicing. If we think about additional levers, we're always looking at prioritization and we'll continue to look at that as we plan for our efforts for next year.

Linsley Carruth: Okay. We're going to switch topics to M&A for a moment here. And two questions, again, I'm going to read them both since they're quite related, Craig Siegenthaler from Bank of America, with $2.6 billion of cash and discretionary investments, how should we think about the potential for future M&A after Oak Hill. And Dan Fannon from Jeffries, can you discuss the comment around M&A, would you consider additional transactions before realizing the full benefits of OHA?

Rob Sharps: Yeah, we continuously evaluate opportunities as they develop in the marketplace. As we've articulated in the past, we're really looking for deals that can add new capabilities in areas that are important to our clients. We're looking for a certain type of transaction. We want to partner with great investors who fit our culture, and we want good returns for our shareholders. We've said in the past, and it continues to be true that we do not need to do deals for scale, and that we will avoid deals with significant overlap or any deals that are disruptive to our ability to deliver for our existing clients.

Now, I point out we're working really well with OHA right now to capture some distribution synergies and leverage our reach. We're also working together to bring OHA's capabilities to the wealth channel and should be in the market in 2023, and that's really our current focus. I believe that if we deliver against this opportunity, it will demonstrate that we can be a good partner for other private markets alternatives' businesses.

So if we take a step back. We've historically focused on organic growth. We will continue to focus on investing in organic growth. We don't need to acquire for scale, but we will look for things that bring new investment capabilities, partner with people that have a like-minded business approach and are culturally aligned, avoid things that are disruptive to our clients or associates, and make sure that we deliver a reasonable deal for our shareholders that make sound financial sense.

Linsley Carruth: All right. We're going to switch gears and talk about Asia for a second. Ken Worthington of JP Morgan asks, T. Rowe Price has been particularly successful driving positive net sales from Asian clients. What is your outlook for your Asian operations and net sales from Asian clients? To what extent are negative secular trends seen in the U.S. in the outlook for Asian markets?

Rob Sharps: We continue to be very optimistic about our opportunities in Asia Pacific. We've met with substantial success in Japan in particular, but also in the Australian market with Dynamic Global Bond and some of our global equity strategies. We've been successful in Korea, and partnered on the development of a retirement date product for a partner there. And our teams there continue to be quite optimistic. Again, - any of the performance challenges that impact the business broadly can also impact business in any region. But we're in market with a broad range of strategies in Asia Pacific. And there are a number of things that can make me optimistic about our pipeline there. It continues to be a strategic focus and a growth priority for us as a firm. And I'm optimistic about our opportunity set there over time, both on the institutional and the intermediary side.

Linsley Carruth: All right. We're going to switch gears to SMAs for a moment. Glenn Schorr from Evercore asks, you mentioned your intent to continue to invest in SMAs, how important is this to get right, how are you currently positioned, which strategies are currently available, and where do you think this will grow over time? And before I turn it to Rob and Jen, I do have a list of the SMAs here if you'd like me to read which ones are available

Rob Sharps: Well, I'll make a few opening comments, and then you can list our current offering. I think this is very important. I think we have a huge opportunity in the U.S. wealth channel and SMAs are becoming increasingly important in gaining share, and I think it's being driven by two trends. First, I think if you look at the big wealth platforms, they continue to centralize decision making. And ultimately, want to partner with fewer investment managers that can deliver their strategies across the range of vehicles, and partner with them from an investment performance perspective, from an engagement and client service perspective, and from an operational perspective. Second, technology is really allowing minimums for SMAs to come down and accommodating more customization and better outcomes for their clients. Increasingly you're able to deliver things like tax loss harvesting, ESG overlays, and other specific customization through an SMA platform and their platforms that are gaining - there are vehicles that are gaining share across many of the wealth platforms. So I think it's very important.

We are working to broaden the range of strategies that we will offer through SMA and expect to roll out additional strategies over the course of the next several quarters. But Linsley, if you want to share what we have currently available. Before I turn it over to Linsley, I will say to the question, do I expect this to grow? It is growing. We've received some meaningful placements on some major platforms recently, and we do expect that it will continue to grow and be an impactful growth driver over the next several years.

Linsley Carruth: All right. So here's the list of our U.S. retail SMAs. And just to clarify, this is our US offering. We do offer some SMAs in Australia as well. But the U.S. offerings are US Muni Bond, US Muni Bond Ladder, our US Large Cap Core Equity, US Large Cap Growth Equity, US Large Cap Value Equity, International Core Equity, International Discipline Equity, US Risk Managed Dynamic Allocation. And Glen and I would be happy to email you that list while we're finished up here as well. All right. So we're going to move on and talk about assets and flows for a moment. So a relatively short question from Craig Siegenthaler at Bank of America. Do you have a long-term target for organic growth? And then he says the price target was 1% - I think he's saying 1% to 3%, but it got garbled in the system.

Rob Sharps: Yeah, we have had an objective of 1 to 3% organic growth, and more years than not since we put that objective out, have been able to meet the lower half of that. As I've said in my prepared remarks, over the course of the last year, our flows have been negative. I do think that we have the opportunity to return to a positive net flow position, but I think it's going to take some time. The factors that ultimately will determine how quickly we're able to, to some extent are in our control and to some extent are out of our control. The market environment clearly has an impact on investor preference and allocation and flows, so I think a more constructive market environment will be helpful. I think improved performance, particularly in several of our larger strategies, also will help with the flow dynamic.

That said, if you look across asset classes, we're growing in fixed income, we're growing in alternatives, we're growing in multi-asset, and with the retirement date funds. And we have a number of strategic initiatives, including OHA, including deeper partnerships with many of our clients that I think also can enhance our net flows in a thoughtful, durable, and sustainable way. So it's my goal to return back to a net flow position in what I would characterize as the intermediate time horizon. I think of the short-term as being anything less than a year or 12 to 18 months, and intermediate, more 1 to 3. Kind of where in that window or when we return will really depend on those factors that I articulated. I think we can have a discussion about whether 1 to 3% is an appropriate target, again, once we return to positive flows. But kind of until we do, I think the real objective just needs to be to get back into a net organic growth position.

Linsley Carruth: All right. Somewhat related on assets. So Vince Vlasho from V2 Enterprise asks, when do you see AUM bottoming out and recovering to recent prior year levels?

Rob Sharps: The biggest driver of our AUM is beta. It's the market performance. In over really pretty much any time horizon given $1.3 trillion base of AUM and a substantial exposure to equities, the market movement is going to have a bigger impact on our base of AUM than organic growth will. And I certainly don't plan from an M&A perspective to do real sizeable scale based M&A that would influence the base of AUM in a way that would overcome market appreciation. So I think it really depends on your perspective of the market with regard to when we get back to a past peak of $1.6, $1.7 trillion in AUM. Look, our goal is to deliver great investment performance to deliver great client service. And we believe if we do that will return to, net flow position over time, and that the markets will go where they will.

Linsley Carruth:. We're going to return to a couple questions on expenses again. Tom Hain from Azora Capital asks, could you repeat your comments on core expenses for 2023 being similar to 2022? How much are core expense grows in 2022 on a with and ex-OHA basis.

Jen Dardis: Yeah. We're not prepared to give any further guidance on expense growth at this point until we've had a chance to get through planning. But based on the comments I made earlier and about the third of expenses being market-driven, you can back into a rough area of what we're thinking for the year.

Rob Sharps: I point out that if you look at the guidance for this year, 4 to 7%, it includes acquired expenses from OHA that weren't in the base. It also includes a meaningful recovery in T&E expense and an off-cycle salary increase for a number of our associates. So I think we are being very diligent on expenses. I think when you're in a more challenging market environment, you really have to lean into opportunities to be more efficient and productive. And that's something that our leadership team is doing right now.

Linsley Carruth: And Brennan Hawken goes on with expenses about inflation. So let me just read his question, see if you want to add anything about the inflation rate. While I appreciate that you're still budgeting for next year, what is the inflation rate that you expect for core expenses at this stage? And can you help us understand the magnitude / size of the levers that you have to pull to constrain expense growth and which levers you would be willing to pull? Anything to add on that, that we haven't already said?

Jen Dardis: Not a whole lot. I'd say as far as inflation goes, there's different categories of expenses and we've already made some significant adjustments from a compensation perspective. So that's one area that we've been looking at, the wage inflation. Other businesses that we have - we're constantly looking at how we can manage third-party expenses and inflation there varies depending on the contract. So we'll put that into the overall mix for how we're thinking about managing expenses.

Linsley Carruth: Okay. Shifting gears to cash levels for a second. Michael Brown from KBW asks, cash levels have been building again this year, how should we think about your targeted cash level when thinking about capital allocation potential in terms of either M&A potential or capital return?

Jen Dardis: Yeah. So the first thing to keep in mind is that we do accrue for our bonus pool throughout the year. So the bonuses is paid at the end of the year, different to some competitors, so that pays out in December. So it's something to keep in mind as you think about the cash build through the year. As far as targets, we don't maintain a target, but as I mentioned, we'll balance off the combination of opportunistically buying back stock and thinking about whether or not we would have opportunistic M&A come our way. It's really hard to predict timing on those kinds of things, and we're trying to balance both of those against one another.

Linsley Carruth:. We're going to switch over to OHA for a second, with a few questions on OHA, we're going to start on one about their products. So Catherine Cooper from the Maryland Geographic Alliance asks, what are some specific examples of products that OHA sells? And she says, I fear moving away from products that has made T. Rowe Price so successful. So perhaps we could talk a little bit about our OHA strategy.

Rob Sharps: Sure. I think a big part of the thesis behind the OHA acquisition is that they have new capabilities that it would take us quite some time to develop. And they're capabilities that are increasingly important to our clients. If you look at allocations to private market alternatives, they've been increasing for quite some time, and it's a part of the market that we've played indirectly by doing investments in private placements through our broad strategies, but it's been pretty limited. And we've been evaluating strategically ways to get into the private market alternative business. And in the OHA acquisition, we found partners that are culturally aligned with T. Rowe Price that are very, very good investors, that value fundamental research, that are client first. So there are many commonalities with T. Rowe Price, but part of the point is that much of what they do is different.

There is a small amount of overlap in their liquid strategies. They manage portfolios of high yield bonds and leverage loans, as well as issuing CLOs. But a big part of the growth opportunity there, are in strategies that T. Rowe Price does not currently or had not historically participated in, distressed credit, private credit, and broadly, multi-sector opportunistic credit, including private markets. It's, again, a part of the market that has become increasingly important to our clients and that is gaining share. And we felt that if we're going to continue to be relevant and important to our clients that it was a capability that we needed to develop. So yes, in some ways it's different to what's historically made us successful, but it's also the direction that many of our clients are headed. And the nature of the way we're participating, we think is high quality, durable, sustainable, and with people that are very like-minded with the values and culture that have allowed us to be successful in the past.

Linsley Carruth: Thank you. So stay on OHA for a moment, get a little more detailed on our accounting of them. Mike Brown from KBW asks, in the appendix, you provide a walk for the capital allocation based income, can you explain why you take mark-to-market changes in accrued carry through earnings?

Jen Dardis: Yeah. As we looked at our choices for how we could account for this, we were trying to best match the revenue accrual to the compensation expense, so that we could run those through at the same time. That said, we are continuing to look at that. As many noted in the second quarter, while first quarter was much more normalized level of capital allocation-based income, this does introduce volatility into the income statement. So we're taking a look at that to make sure that this is the way we want to account for this long-term, but that was the rationale for why we did it.

Linsley Carruth: Thank you. All right. We're going to switch to a little bit more industry trends now. Greg Warren from Morningstar asks, you noted early in the presentation some of the secular and cyclical headwinds facing the firm. So just wondering if there are any existing or emerging trends in investing or distribution that T. Rowe Price's focused on that you feel could enhance your competitive positioning longer-term, or where you feel that you already have a competitive advantage allowing you to buck some of these trends. And conversely, are there any existing or emerging trends that the firm is ignoring not committed to, and why?

Rob Sharps: I tried to address many of those opportunities in our prepared remarks. I think we have a very large opportunity in front of us to continue to broaden our coverage and deepen our relationships in U.S. wealth. We're in a number of territories now and have the potential to expand our territories. The longer we're in territory and the more we build those relationships and leverage many of the resources that we have, the more productive, ultimately they can become. I think our brand, our commitment to active - our performance, our scale, and our range of product - will kind of really position us well and give us the opportunity to continue to gain market share in U.S. wealth. It's an area that I do think is evolving, as we'd mentioned before, in terms of the prioritization of the types of partners that they want to have. We're finding that that many really value partnering with fewer scaled providers that can really share and deliver the best of their firm, so I think that's quite a large opportunity.

I think we have an opportunity in U.S .wealth and more broadly to deliver our strategies through a broader range of vehicles. I think we have a continued opportunity to grow outside of the U.S. I think we have an opportunity to grow in fixed income. I'm still optimistic about our retirement date fund offering. So look, there are a number of things, both within legacy T. Rowe Price, as well as OHA that get me excited and kind of lead me to believe that we can return the firm to growth in intermediate time horizon.

Linsley Carruth: Great. So Mac Sykes has bundled two questions together here. So I'm going to read them both together. Can you talk about your conversations with consultants? Are you finding them sympathetic to the recent growth equity challenges? And then if we are in a more normalized rate environment, have you changed at all your approach to security selection within the growth equity segment?

Rob Sharps: Yeah. I'll offer some perspective here. Okay. The market's humbled us all at different points in time, and any active manager will go through a period of underperformance. I've observed this for us as a firm in the late 1990s, and we came out the other side stronger, on more of a macro basis. And on a micro basis, a number of our strategies have gone through difficult periods of time in the past. And we've always recovered by keeping the long-term orientation. We constantly evaluate the talent on our investment teams, our investment philosophy, and our investment process. And right now, I'm confident that we still have a very robust global research platform and very talented portfolio managers. If you look at our research ratings over time, they've continued to deliver. And as I'd mentioned earlier, we have a number of strategies that are performing well.

Some of the challenge now is that part of our set of strategies that are in the - difficult part of the performance cycle are strategies that are relatively large from an AUM perspective for us. And that makes this a little more difficult than it's been in the past. I think when we engage with consultants, they really want to understand kind of ultimately, what happened and whether or not there are any real changes in order. My perspective is that we really need just to do a better job of execution. And this is an instance of a talented team with sound philosophy and process going through a period of poor execution, which again, for active management firms happens. I think if consultants really engage with us and understand the philosophy and process, ultimately I think we are able to garner much of their confidence.

When you go through performance cycles, you have clients that stick with you and you have clients that ultimately end up deciding to move on, and they each have their own set of facts and circumstances that ultimately they have to consider. I point out that we're not alone in terms of the challenging environment in growth. And I have every confidence that we'll be able to restore robust investment track record over a period of time. I'd also say that every cycle is different, and what's worked in past cycles doesn't necessarily work in the next cycle. So I think it's incumbent on our investment professionals to understand the backdrop and the macro factors and the changing nature of the cycle that they're participating in, and to adjust their philosophy and process accordingly in an appropriate way.

Linsley Carruth: Thank you. Okay. We're going to switch gears to alternatives for a second. Greg Warren sends another long question that I will read for you, from Morningstar. Do you feel the firm needs to pursue a larger alternative investing platform over time, whether through acquiring managers or building out your existing platform? Is that decision based more on a desire to service institutional and high-net-worth clients that have been increasing their allocations to private markets or by the belief that our alternatives will eventually be a viable retail product? And separately, how much do you - how much scale do you feel T. Rowe Price would need to have in each of the core alternative segments to be competitive with the likes of Blackstone, KKR, and Apollo?

Rob Sharps: Okay. Where to start with that one. I would like for us to have a larger presence in private market alternatives over time, but we want to do it in a durable and sustainable way. And first and foremost, I think we need to deliver against distribution synergies in both the institutional and the intermediary/retail channel with OHA and their capabilities. To the extent that we do that, I think we will be an acquirer of choice in this area. It's something that we will do in a measured way over time. We don't endeavor to be Blackstone, or KKR, or Apollo. We don't need to be in every area of private market alternatives, but there are parts of the business that I think fit nicely with our overall portfolio and that are growing in importance to our clients, and I think we can address both the institutional and the wealth channel with the existing set of products and anything that we evaluate going forward.

Linsley Carruth: We are actually out of questions, but Rob, I'm going to throw one more at you about TRPIM since none of the questions came in about it. Would you be willing to do a quick update on where we stand with TRPIM today, since that had come in as an expected topic for us to talk about today?

Rob Sharps: Sure. I'm very pleased with where T. Rowe Price Investment Management is. The strategies within T. Rowe Price Investment Management are performing well. I think the morale on the investment teams is robust. We reached disaggregation at the beginning of this quarter. So over the course of the next several quarters and years, we should begin to see some of the real benefits of allowing portfolio managers to have greater access to their highest conviction ideas, and tighter connections between the research analysts and the portfolio managers there. Operationally, and from a legal and compliance perspective, things are going quite well. So in aggregate, I'm very pleased with where we are with the TRPIM initiative. As a program, it's wound down, and now it's business as usual. And we have some momentum there and things feel quite good.

Linsley Carruth: Great. Well, we are actually out of questions. So Rob, we're going to turn to you for a quick wrap up.

Rob Sharps: Okay. I'll just say that in closing, we believe we have a robust value proposition to deliver for our clients. We have a very strong culture and a history of delivering strong, long-term investment results and great client service. We're committed to preserving these attributes while changing at a thoughtful pace and adapting to meet the changing needs of our clients. So thank you all for your interest and we very much appreciate the questions and the engagement.

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