T. Rowe Price

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Euro Corporate Bond Fund Veteran David Stanley Reflects on 20 Years at the Helm

Key Insights

- Consistency has been key to navigating a remarkably eventful market landscape over the past 20 years.
- Disciplined security selection based on thorough research, downside risk management and diversification are the key elements of long-term outperformance.
- We believe our credit research platform will continue to drive success through identifying high conviction ideas and avoiding deteriorating credits.

David Stanley
Portfolio Manager

David Stanley has managed the T. Rowe Price Euro Corporate Bond Strategy for over 22 years, making him the longest tenured portfolio manager within his Morningstar peer group[1]. During this time, Stanley has delivered consistent outperformance both in positive and negative return markets. In this Q&A, Stanley reflects on a highly eventful two decades in markets, and on the key elements in building and sustaining his successful track record.

How do you reflect on the past 20 years and how the strategy has evolved over this time?

The past two decades have seen remarkable change and unprecedented occurrences in the market landscape. We went through the 2008 financial crisis, the near collapse of the global banking system and extraordinary policy stimulus response.

The ensuing years saw multiple sovereign debt crises raise doubts about the future of the eurozone with European Central Bank (ECB) President Mario Draghi famously promising "whatever it takes" to ensure its survival. The ECB introduced negative interest rates and direct purchases of sovereign and corporate bonds, ushering in years of ultra-low and even below zero bond yields in Europe.

Then, the early stages of the 2020s have seen the coronavirus pandemic, lockdowns, further huge policy stimulus, intense inflationary pressure, and aggressive monetary tightening.

In broader trends, we have seen reduced and more erratic liquidity exacerbating directional market moves, partly because regulation has diminished banks' market-making role, while the rise of environmental, social and governance (ESG) investing has become a forceful technical factor. We have always considered governance in our analysis and fully integrate ESG factors, but the wider systemic impact of ESG is relatively new.

[1] Source: Morningstar Direct. Based on Morningstar Category: EAA Fund EUR Corporate Bond as of March 31, 2024.

How have you managed to navigate such an eventful environment?

Change and innovation are among the most interesting aspects of investing, but equally can make life challenging. Ultimately, although we must be able to adapt to new environments, as the significance of various fundamental and technical drivers can change over time, our process remains consistent. We focus on our core expertise of fundamental research underpinned by a well-resourced, high-quality platform of analysts. This has been all-important.

Some of the aforementioned events could be classed as exceptional, but shocks seem to be occurring with a greater degree of regularity now. Downside risk management is key for us, and we have used hedges more frequently in the recent past, helped by the growth in derivatives markets, notably credit index options, which have become easier and more cost effective to use.

How do you go about selecting the names in the portfolio?

Rigorous, high quality, fundamental research is the bedrock of our process. Our analysts undertake a 360-degree analysis of a company's balance sheet, financials, management quality, competitive position, and ESG attributes, before assigning internal ratings and conviction scores to issuers under their coverage. Ratings and conviction scores are not used in a quantitative manner and are instead the start of communication between me and the analysts. Strong sell recommendations will lead to elimination from the portfolio, but buy recommendations are in competition with other ideas – some may have greater downside than others, and are therefore less attractive, or may result in unwanted concentrations.

With regards to ESG, there are several elements to integrating ESG factors. We look at a company's ESG performance, on measures like number of accidents, carbon emissions, strength of whistleblower programs; its targets, for instance to reduce carbon emissions or increase diversity; and whether there are any risks from ESG-related controversies.

On top of this, we draw on our broad research platform which covers the full range of global bond markets, including high yield, emerging markets, and rates, as well as comprising a small team of economists, as well as from our quantitative specialists.

What are your key considerations in then constructing the portfolio?

From the pool of ideas generated, we construct a portfolio comprising diversified sources of alpha, emphasizing our high conviction ideas and as far as possible idiosyncratic stories that can perform over the long-term, also aiming to out-yield the benchmark. We analyze the correlations between our positions and how they are changing with the market environment, maintaining diversity across sectors, regions, ratings, and issuers, which can help keep the volatility of performance low.

We are particularly conscious of the asymmetric nature of the asset class. The potential downside in investment grade is greater than the upside. It is therefore important that we understand and assess the risks that we are taking when buying a corporate bond. We believe that long-term success in investment grade comes more through avoiding and underweighting underperforming credits than picking the highest performing names.

What are the secret ingredients of your success over the past 20 years?

One of my personal beliefs is that it is not necessary to always take a strong market view or make a big call. Taking a neutral position on a sector or issuer, or indeed the market, can at times be the more prudent thing to do, being ready to express conviction when we do have a strong fundamental view or see relative value opportunities.

Similarly, it is not necessary to always strive to be top quartile over short-term time periods. Moderate outperformance, sustained over the long-term is more important. Even consistent second quartile short-term rankings will lead to top quartile over time. The team searches exhaustively for opportunities, sometimes niche and opportunistic openings, which can include shorter-term positions. We often find we can add incremental alpha by exploring the issuer's full capital structure when we believe we are being compensated for taking additional credit risk.

We avoid taking excessive beta, duration, or directional market exposure. Similarly, we do not chase risk, or alternatively shy away from taking it. As active fund managers, we look to see where we are sufficiently rewarded for taking the risk, be that with an issuer, sector, or market in general.

In truth, there are no great secrets and no magic formula. Drawing on the resources and ideas of an excellent research platform, and avoiding deteriorating credits, is essential. Consistency requires diversification, but also flexibility. Drivers of performance can change, and we do not get too attached to positions. At the same time, we look for high-conviction, long-term positions. During the European sovereign crisis, we identified compelling opportunities in the banking sector, which incurred short-term losses but ultimately did well.

Generating excess returns by out-yielding the benchmark over the long term is also a key building block in outperformance. Adding yield means taking on extra risk, be that duration, liquidity or credit quality risk. Therefore, we do not do this indiscriminately, but stringently assess opportunities relative to risk and volatility.

T. Rowe Price Euro Corp Bd | EUR , 5 Year Morningstar Percentile, EAA Fund EUR Corporate Bond, 370 Funds[1]

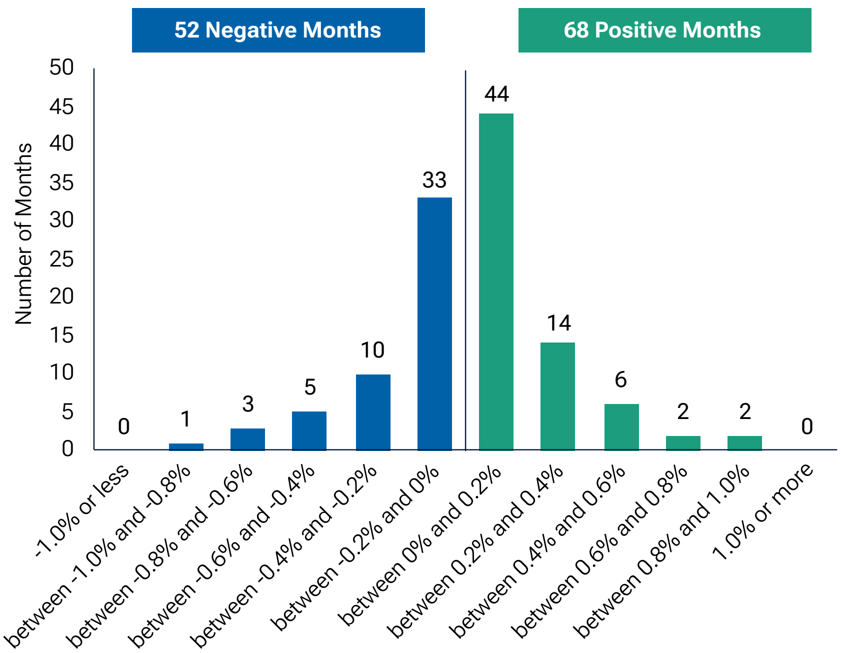
T. Rowe Price Funds SICAV - Euro Corporate Bond Fund Calendar Year Performance (Class I)[2]

	2019	2020	2021	2022	2023
Fund	6.95%	3.72%	-1.23%	-13.24%	8.42%
Benchmark	6.24%	2.77%	-0.97%	-13.65%	8.19%
Value added	0.71%	0.95%	-0.26%	0.41%	0.23%

Performance Regularity And Downside Risk Management

Ten Years ended 31 March 2024, Figures are Calculated in Euros

Distribution of Monthly Value Added[3,4]



Regular historical outperformance over benchmark in both positive and negative market environments

Value added - Historical Performance results[3,4]

Over the last 120 months

51 months had witnessed **negative index performance**, of which 29 months had led to a portfolio return net of fees superior to that of the benchmark = a **57%** success rate in negative market environment

69 months had witnessed **positive index performance**, of which 39 months had led to a portfolio return net of fees superior to that of the benchmark = a **57%** success rate in positive market environment

Past performance is not a reliable indicator of future performance.

[1] Portfolio is T. Rowe Price Funds SICAV—Euro Corporate Bond Fund - Class I (EUR) (Net of Fees) minus the benchmark in the previous row.
 Morningstar category is EUR Corporate Bond. Rankings are based on net returns.

[2] Source: T. Rowe Price. Fund performance is calculated using the official NAV with distributions reinvested, if any. The value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the fund and the currency in which you subscribed, if different. Sales charges, taxes and other locally applied costs have not been deducted and if applicable, they will reduce the performance figures. Performance data will be displayed when a share class has more than 1 year history of returns. The manager is not constrained by the fund's benchmark(s), which is (are) used for performance comparison purposes only. Past performance is not a reliable indicator of future performance.

[3] Index: Bloomberg Euro Aggregate Corporate Bond Index.

[4] Fund performance is calculated using the official net asset value with dividends reinvested, if any.

Sources: Bloomberg Index Services Limited. Please see the Additional Disclosures page for additional legal notices and disclaimers.

Performance is computed in U.S. dollars and converted to Euros using an exchange rate determined by an independent third party.

Risks - the following risks are materially relevant to the fund:

Contingent Convertible bond risk – Contingent Convertible Bonds may be subject to additional risks linked to: capital structure inversion, trigger levels, coupon cancellations, call extensions, yield/valuation, conversions, write downs, industry concentration and liquidity, among others.

Credit risk – Credit risk arises when an issuer's financial health deteriorates and/or it fails to fulfill its financial obligations to the fund.

Default risk – The issuers of certain bonds could become unable to make payments on their bonds.

Derivative risk – Derivatives may be used to create leverage which could expose the fund to higher volatility and/ or losses that are significantly greater than the cost of the derivative.

High yield bond risk – High yield debt securities are generally subject to greater risk of issuer debt restructuring or default, higher liquidity risk and greater sensitivity to market conditions.

Interest rate risk – Interest rate risk is the potential for losses in fixed income investments as a result of unexpected changes in interest rates.

Liquidity risk – Liquidity risk may result in securities becoming hard to value or trade within a desired timeframe at a fair price.

Total Return Swap risk – Total return swap contracts may expose the fund to additional risks, including market, counterparty and operational risks as well as risks linked to the use of collateral arrangements.

Sector concentration risk – Sector concentration risk may result in performance being more strongly affected by any business, industry, economic, financial or market conditions affecting a particular sector in which the portfolio's assets are concentrated.

General Fund Risks

Counterparty risk – Counterparty risk may materialise if an entity with which the fund does business becomes unwilling or unable to meet its obligations to the fund.

ESG and Sustainability risk – ESG and Sustainability risk may result in a material negative impact on the value of an investment and performance of the fund.

Geographic concentration risk – Geographic concentration risk may result in performance being more strongly affected by any social, political, economic, environmental or market conditions affecting those countries or regions in which the fund's assets are concentrated.

Hedging risk – Hedging measures involve costs and may work imperfectly, may not be feasible at times, or may fail completely
Investment portfolio risk – Investing in funds involves certain risks an investor would not face if investing in markets directly.

Management risk – Management risk may result in potential conflicts of interest relating to the obligations of the investment manager.

Market risk – Market risk may subject the fund to experience losses caused by unexpected changes in a wide variety of factors.

Operational risk – Operational risk may cause losses as a result of incidents caused by people, systems, and/or processes**.**

Important Information

The Funds are sub-funds of the T. Rowe Price Funds SICAV, a Luxembourg investment company with variable capital which is registered with Commission de Surveillance du Secteur Financier and which qualifies as an undertaking for collective investment in transferable securities ("UCITS"). Full details of the objectives, investment policies and risks are located in the prospectus which is available with the key investor information documents (KIID) and/or key information document (KID) in English and in an official language of the jurisdictions in which the Funds are registered for public sale, together with the articles of incorporation and the annual and semiannual reports (together "Fund Documents"). Any decision to invest should be made on the basis of the Fund Documents which are available free of charge from the local representative, local information/paying agent or from authorised distributors. They can also be found along with a summary of investor rights in English at www.troweprice.com. The Management Company reserves the right to terminate marketing arrangements.

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