T. Rowe Price®

EUROPEAN HIGH YIELD BOND STRATEGY

The T. Rowe Price Funds SICAV—European High Yield Bond Fund is now the Responsible European High Yield Bond Fund. The fund is categorised as Article 8 under Sustainable Finance Disclosure Regulation (SFDR).

Using intensive credit research to unearth attractive income opportunities

European high yield bonds offer a high level of regional diversification and provide investors with opportunities to exploit market inefficiencies.

Advantages of European high yield debt

1. Fast-evolving opportunity set
2. Historically less volatile than US high yield
3. Good diversification potential
4. Inefficiencies and information gaps can potentially reward active investors

A fast-evolving asset class

The European high yield market trebled in size between 2012 and 2020, to around €600 billion—roughly a third of the size of the US high yield market. In the past decade, European companies—previously reliant on bank financing—have relied more on public debt markets for funding as deleveraging and tight credit conditions slowed bank lending. Issuers have also taken advantage of low interest rates to extend their bond maturities, and this has also helped boost new issue volumes.

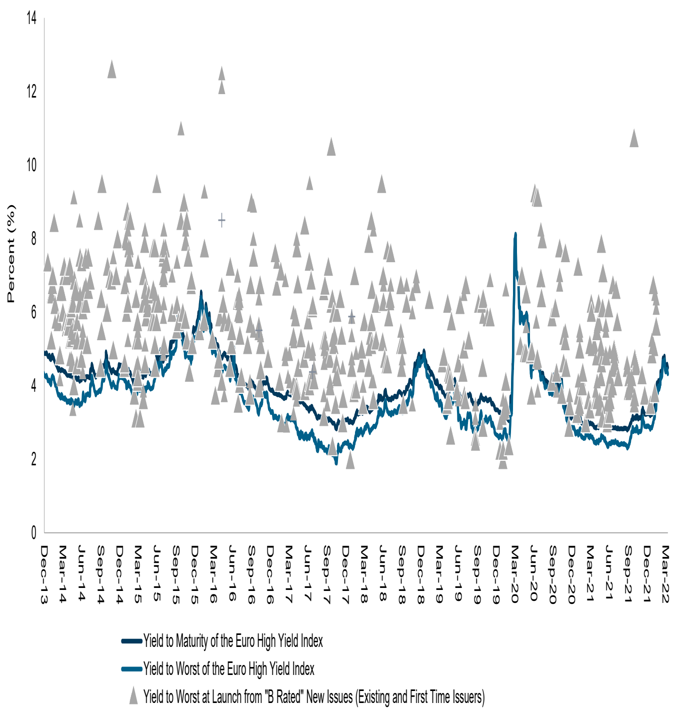
With an investible universe spanning about 650 securities issued by 350 different companies, European high yield offers a high level of regional diversification and provides investors with opportunities to exploit market inefficiencies between countries.

Volatility in the European high yield market has historically been lower than that in the US. One reason is the US's bigger tilt towards energy names, whereas Europe is more dominated by financials. It is significantly harder to file for bankruptcy in Europe than in the US, which may contribute to lower default rates and greater market cycle resilience.

Inefficiencies can create opportunity

Persistent pricing anomalies can be a reliable source of added value (alpha) for active investors with expertise in security selection. The chart shows the yields at which B rated new bond issues came to market in European high yield from 2017 to 2021 compared with the average yield on the single B index. Bonds with the same credit agency risk rating have been issued at yields ranging from around 2% to 10%, reflecting the market's views on their relative riskiness. Wide price dispersion potentially makes it more rewarding for active investors to identify future winners and avoid the losers.

Highly dispersed market: Euro B rated bonds



European High Yield Bond Strategy—investment approach

As a well-resourced research-driven manager, we seek to overweight segments where pricing inefficiencies and information gaps occur, including deals with complex structures, first-time issues and new issues, where we believe intensive research can give us an edge.

We have a significant preference for the **single B-rated** segment of the market, where (as shown in the chart) price dispersion is wider, spreads can be more attractive and there is more potential for capital gains. The double B space, which accounts for about 70% of the market, has become increasingly compressed in recent years. One reason is that stimulus-related central bank buying of investment-grade bonds has caused some investors to crowd into the top-rated end of the high yield market.

By contrast, we don't take systematic exposure to **subordinated financial** debt, because in the long run this segment has detracted from the risk/return profile of the asset class. But we do take opportunistic exposure in subordinated financials on an off-benchmark basis.

Identifying these issuers requires the kind of extensive research and deep fundamental analysis discussed above, but success in doing so can bring significant rewards. Over the past few years, our security selection within the single B space was by far the biggest contributor to relative performance.

We run a **concentrated** portfolio of 75 to 150 names. This concentration is made possible by meticulous risk assessment, careful diversification, and an emphasis on liquidity.

We have an explicit **income** focus, seeking out issues that offer attractive spreads. These can act as a cushion to help manage the risk of capital loss at times of short-term volatility. We have a disciplined process for rotating out of played-out stories into new opportunities.

Research-intensive, risk-aware process

The strategy integrates fundamental proprietary research at the corporate bond, sovereign and equity levels. This integral collaboration provides a holistic view of a company's capital structure and management team, as well as its position in the larger market environment unique to each country.

Our credit research integrates **fundamental**, **valuation** and **technical** factors.

Fundamental research starts with **quantitative** analysis including financial performance, forecast modeling, scenario stress testing and technical security analysis. Our proprietary high yield Responsible Investing Indicator Model (RIIM) feeds into this stage, flagging any environmental, social or ethical (ESG) concerns.

Qualitative analysis includes assessments of company management, ESG factors, market environment, industry conditions and competitive and regulatory landscape. Analysts often collaborate with their industry peers on the equity team to share intel and perspectives and with their peers on the Responsible Investing team to investigate issues flagged by RIIM.

The result of the credit analysis is a **proprietary credit rating** ranging from 1, the equivalent of an AAA-rated security, to 10, the equivalent of a defaulted security as defined by the major rating agencies.

Having assessed credit quality at the company level, we turn to the individual bond issue, including analysis of the security structure, collateral evaluation and covenant analysis.

During **relative value** and **technical** analysis, working alongside our high yield traders, our credit analysts evaluate how cheaply a security is trading relative to comparable securities and assess whether the technical picture (supply/demand dynamics) is supportive.

The ultimate output of the research process is a **conviction score** from C1 (most positive) to C5 (most negative), which offers a standardised way for the portfolio manager to compare opportunities across industries and countries and guides his position sizing decisions.

Risk management is crucial, especially in a concentrated portfolio, and here our most important line of defense is meticulous credit research. At the portfolio construction level, we seek to manage risk through (among other things) diversification by issuer, sector/industry, country maturity and liquidity; a consistent sell discipline; stress testing; detailed portfolio modeling; statistical comparison and detailed attribution.

Investment parameters	
Comparator benchmark*	ICE BofA European Currency High Yield Constrained Excluding Subordinated Financials Index Hedged to EUR
Number of issuers	75–150
Maximum issuer weight	4%
Allocation to European currency-denominated issues	min. 80%
Allocation ex Europe	max. 20%
Allocation to investment grade	max. 20%
Currency	Fully hedged back to EUR
Derivatives	10% limit on credit default swaps

*The manager is not constrained by the fund's benchmark, which is used for performance comparison purposes only.

"The goal of fundamental credit research is to identify those companies positioned to improve their credit profile, run by astute management teams."

Mike Della Vedova | Portfolio Manager

Why T. Rowe Price for European high yield?

Responsible investing

Environmental, social and ethical considerations are integrated into our process at the qualitative and quantitative levels, both to manage risks and identify opportunities. Fixed income research analysts regularly collaborate with their counterparts on the Responsible Investing team to test and develop investment ideas.

Our proprietary Responsible Investing Indicator Model (RIIM) complements traditional investment analysis by leveraging data sets, such as ESG performance data, ESG targets and ESG incident/controversy data, that are outside the wheelhouse of standard financial analysis. RIIM helps to quantify the environmental, social and ethical profiles of potential investments so that the analyst or portfolio manager can better balance an ESG factor within their traditional analysis.

We apply a proprietary exclusion list that aligns with our clients' most common ESG concerns, including controversial and assault-style weapons, coal, tobacco, gambling and adult entertainment and conduct-based criteria.[1]

A pioneer in high yield

We have been investing in European high yield since 2002, but our high yield roots go much deeper than that.

T. Rowe Price has been managing fixed income since 1971—a 50-year track record—and has been investing in high yield since the infancy of the asset class. We launched our first high yield strategy in 1984.

Our European high yield philosophy is built on the same approach that has been applied to managing high yield assets for more than of 35 years.

Culture of collaboration

Portfolio Manager Mike Della Vedova is supported by 24 global high yield analysts, 10 ESG analysts, 8 supporting high yield portfolio managers, 29 other fixed income analysts and 245 equity analysts. Collaboration is at the heart of our research culture. Proactive sharing of research ideas across and among our debt, equity and Responsible Investing teams allows for more comprehensive investment insights in less transparent markets. This gives us greater conviction and patience in our (sometimes contrarian) views, and we believe it helps mitigate risk more efficiently. Our emerging market debt and equity analysts routinely travel together on research trips.

Global platform and perspective

Our active investment decisions are backed by one of the industry's largest and most experienced buy-side global research platforms. Local analysts operate in the world's major economies, working in collaboration with our global network of specialists across all industries and major asset classes to find the best investment ideas.

Our analysts go beyond the numbers, getting out into the field to see firsthand how local economies and companies are performing today and, more importantly, to make informed and responsible judgments about how we think they'll perform in the future.

Risks

The following risks are materially relevant to the fund (refer to prospectus for further details):

Credit risk – a bond or money market security could lose value if the issuer's financial health deteriorates. **Default risk** – the issuers of certain bonds could become unable to make payments on their bonds. **Derivatives risk** – derivatives may result in losses that are significantly greater than the cost of the derivative. **Emerging markets risk** – emerging markets are less established than developed markets and therefore involve higher risks. **High yield bond risk** – a bond or debt security rated below BBB- by Standard & Poor's or an equivalent rating, also termed 'below investment grade', is generally subject to higher yields but to greater risks too. **Interest rate risk** – when interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality. **Liquidity risk** – any security could become hard to value or to sell at a desired time and price. **Sector concentration risk** – the performance of a fund that invests a large portion of its assets in a particular economic sector (or, for bond funds, a particular market segment), will be more strongly affected by events affecting that sector or segment of the fixed income market. **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.

[1] The exclusion list specifically applies to the SICAV, but can be applied to separate accounts according to client preference.

General fund risks – to be read in conjunction with the fund-specific risks above.

Market risk – tMarket risk may subject the fund to experience losses caused by unexpected changes in a wide variety of factors. **Counterparty risk** – an entity with which the fund transacts may not meet its obligations to the fund. **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** – to the extent that a fund invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area. **Hedging risk** – a fund's attempts to reduce or eliminate certain risks through hedging may not work as intended. **Investment risk** – investing in funds involves certain risks an investor would not face if investing in markets directly. **Management risk** – the investment manager or its designees may at times find their obligations to a fund to be in conflict with their obligations to other investment.

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T. Rowe Price at a glance[1]

- Founded in 1937
- US$1,551.8 billion AUM
- 908 investment professionals worldwide
- 386 research analysts
- Offices in 17 markets, research analysts in 9 locations
- Clients in 53 countries

T. Rowe Price European High Yield Bond Strategy	
Portfolio manager	Mike Della Vedova
Strategy inception date	October 2011
Strategy AUM	€732.9 million
Comparator benchmark*	ICE BofA European Curr. HY Constr. Excl. Subord. Financials Index Hedged to EUR

T. Rowe Price Funds SICAV–Responsible European High Yield Bond Fund[4] (actively managed)	
Fund size	€205.4 million
Launch date	September 2011
Base currency	EUR
ISIN (Class I)[2]	LU0596125814
Ongoing charges (Class I)[3]	0.70% per annum

[1] All figures as at 31 March 2022. Firmwide AUM includes assets managed by T. Rowe Price Associates, Inc., and its investment advisory affiliates.
[2] Full details of all available share classes can be found on our website.
[3] Includes investment management fee.
[4] Effective 2 November 2021, the T. Rowe Price Funds SICAV–European High Yield Bond Fund became the T. Rowe Price Funds SICAV–Responsible European High Yield Bond Fund.
*The manager is not constrained by the fund's benchmark, which is used for performance comparison purposes only.

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 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 semi-annual 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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