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Serving up income with a side of growth potential and seasoned risk management

From the Field
May 2024

Key Insights

- T. Rowe Price's Capital Appreciation and Income Fund (CAFI) aims to provide growth while controlling risks and generating income.
- This investment approach is versatile and may be considered by individuals at various stages of investing, potentially resonating more with those in or near retirement.
- CAFI is built on the principles and processes underpinning the Capital Appreciation Fund (CAF).

David Giroux
Portfolio Manager, Capital Appreciation Fund and Capital Appreciation Equity ETF; Co-portfolio Manager, Capital Appreciation and Income Fund

Farris Shuggi
Co-portfolio Manager, Capital Appreciation and Income Fund

When you are in or near retirement, you may find yourself or your investment strategy being pulled in multiple directions. You may be looking for income, but you're probably too young to forget about growth. You also don't want to take on too much risk.

Consider the new Capital Appreciation and Income Fund, or CAFI. It's designed to pursue growth thoughtfully while seeking to control risk and produce income. These qualities typically resonate with individuals who have retired or are nearing retirement, but the fund can also play an important role in any diversified portfolio.

A strong foundation

CAFI is a new member of the Capital Appreciation franchise, a set of investments managed or co-managed by David Giroux that draws on similar approaches and principles:

- Looking for durable inefficiencies in the market that can be exploited to enhance returns and
- Seeking to keep a tight leash on risk, with an eye toward reducing volatility relative to the broader market.

"The genesis of the Capital Appreciation and Income strategy revolves around income and risk," says Giroux, CAFI co-portfolio manager and a six-time

nominee and two-time winner of the Morningstar Fund Manager of the Year award,[1] who has also managed the Capital Appreciation Fund for almost two decades. "We wanted to create a strategy that was similar to the Capital Appreciation Fund but with the potential for a higher income stream and a little bit lower risk. What makes CAFI unique from the other franchise's other strategies is its emphasis is on income."

CAFI Co-portfolio Manager Farris Shuggi explains: "Our research seeks investment opportunities that have a repeatable and durable statistical advantage. Essentially, we want to remove behavioral bias from the investment process and take a more objective, long-term view."

"We think markets tend to pay more attention to the present because the future is uncertain," adds Giroux. "This creates an inefficiency we can exploit by taking a longer view. We try to invest ahead of a change in fundamentals, instead of as it happens, by focusing on the fundamental outlook of companies over four to five years."

A framework for your retirement

Young investors typically require growth to build their financial resources. Many retirees seek income to help meet their expenses. But if you are a recent retiree, or are planning to retire soon, you may want a bit of both. You might start focusing on capital preservation and prioritizing current income. But you still want growth to stay ahead of inflation and to support long-lasting income.

The Capital Appreciation and Income Fund can help with this transitional period:

- **It has significant exposure to fixed income.** CAFI normally invests 50%–70% of its net assets in fixed income and other debt instruments to help investors start building regular income while also seeking to limit losses in a market downturn.

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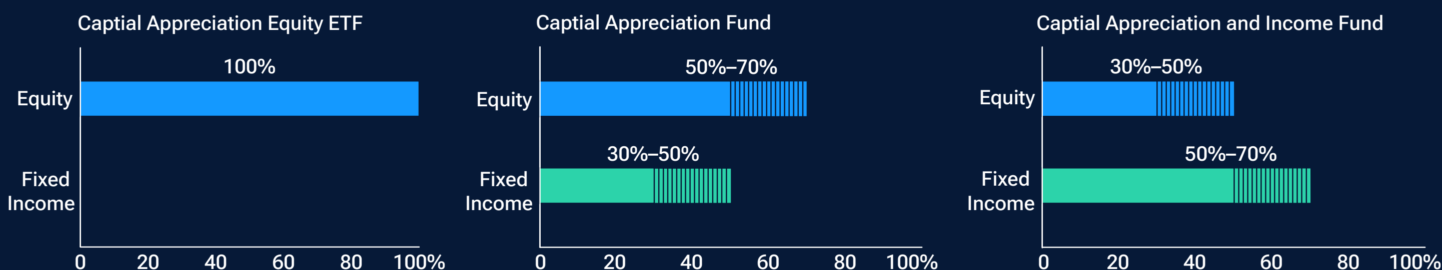
– Farris Shuggi
CAFI Co-portfolio Manager

[1] Established in 1988, the Morningstar Fund Manager of the Year award recognizes portfolio managers who demonstrate excellent investment skill and the courage to differ from the consensus to benefit investors. The Fund Manager of the Year award winners are chosen based on research and in-depth qualitative evaluation by Morningstar's Manager Research Group. To qualify for the award, managers' funds must have not only posted impressive returns for the year, but the managers also must have a record of delivering outstanding long-term risk-adjusted performance and of aligning their interests with shareholders'. Managers' funds must currently have a Morningstar Analyst Rating™ of Gold or Silver. David Giroux won the award for Allocation Funds in 2012 and Allocation/Alternative Funds in 2017. See Important Information for additional disclosure.

The Capital Appreciation franchise

(Fig. 1) A comparison of asset allocations for the three funds in the Capital Appreciation suite.



Sources: T. Rowe Price.

- **Its exposure to stocks is expected to favor quality businesses over big dividends.** It favors well-run companies that offer the prospect of steady growth at a reasonable price. It aims to avoid companies that could be riskier, like poor capital allocators or those facing persistent headwinds, such as shifts in consumer behaviors or disruptive competition.

- **It incorporates risk analysis at every step of the investment process.** CAFI's experienced portfolio managers combine a deep understanding of individual companies with proprietary quantitative tools to uncover opportunities where the risk/reward setup looks compelling.

That combined emphasis on income and risk-hedged growth lands in the sweet spot for many retirees and preretirees. As a diversified portfolio, the fund can also help investors to navigate the ups and downs of different market environments.

Shifting from the sidelines

Markets have been shaken in recent years by higher interest rates, political and economic uncertainty, and the lingering effects of the pandemic. Many investors have kept their money on the sidelines out of concern for the risk in this market.

It's wise to exercise caution. But there is also risk in staying out of the markets for too long or trying to find the "right moment" to get in. The Capital Appreciation franchise provides a range of options for investors with varying risk tolerances.

- The Capital Appreciation Fund (PRWCX—closed to new investors) has more of a growth-oriented strategy. Under Giroux's leadership, the Capital Appreciation Fund finished 2023 beating its Morningstar peer group average for 16 consecutive years, tying the record for the most consecutive calendar years a U.S. equity or multi-asset fund has done so under the same portfolio manager. The only other fund to accomplish this feat established the record between 1938 and 1953.[2]

- The Capital Appreciation and Income Fund (PRCFX) seeks total return through a combination of income and capital appreciation.

- The Capital Appreciation Equity ETF (TCAF) is an exchange-traded fund (ETF) that is fully invested in equities, primarily in the United States.

Each portfolio in the franchise offers differing approaches to seeking capital appreciation and income that can position investors to benefit when markets gain ground while also providing a seasoned risk management process.

Capital Appreciation and Income Fund

- Ticker symbol: PRCFX
- Risk potential: Moderate[3]
- Asset class: Asset allocation
- Net expense ratio:* 0.65%
- Gross expense ratio:* 0.88%
- Expense waiver type: Contractual
- Expense limitation expires: 2/28/2027
- Investment minimum: $2,500 for general investing; $1,000 for IRA†

*The net expense ratio reflects fund expenses after the deduction of any waiver or reimbursement. The gross expense ratio reflects the fund expenses as stated in the fee table of the fund's prospectus prior to the deduction of any waiver or reimbursement. Expense ratios are as of the most recent prospectus.

†The fund may have other share classes available that offer different investment minimums and fees. See the prospectus for details.

[2] Based on a T. Rowe Price analysis of calendar year returns for funds domiciled in the U.S. with greater than or equal to 15 consecutive years of beating their peer group average while under the management of the same portfolio manager. This assessment reviewed U.S.-domiciled funds and exchange-traded funds (ETFs) within the Morningstar Direct database that have at least a 15-year track record under the same portfolio manager and still exist today. It dates to 1925, the earliest year any fund in the investment universe began. The analysis then reviewed funds with greater than or equal to 15 consecutive years of beating their peer group average and identified any funds that maintained that streak.

[3] Methodology for risk spectrum: We evaluate the standard deviation and its resulting placement within a specific risk/return category on an annual basis. A fund is generally placed in a risk/return category based on the 10-year standard deviation of its performance. If a fund is less than 10 years old, the actual fund performance history is supplemented with the primary prospectus benchmark history to obtain a full 10-year history, or longest time period available up to 10 years. For an Asset Allocation fund with less than 10 years of performance history, sub-strategy returns are used. When a sub-strategy is less than 10 years old, the actual sub-strategy performance history is supplemented with benchmark history to obtain a full 10-year history, or longest time period available up to 10 years.

All investments are subject to market risk, including the possible loss of principal. Standard deviation of returns, a measure of price volatility, is one measure of risk. Please consult the funds' prospectuses for a more complete discussion of the funds' risks.

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Risk considerations: All investments are subject to market risk, including the possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market.

Stock investing: Stocks generally fluctuate in value more than bonds and may decline significantly over short time periods. Stock prices can fall because of weakness in the broad market, a particular industry, or specific holdings.

Interest rates: A rise in interest rates typically causes the price of a fixed rate debt instrument to fall and its yield to rise. Conversely, a decline in interest rates typically causes the price of a fixed rate debt instrument to rise and the yield to fall.

Credit quality: An issuer of a debt instrument could suffer an adverse change in financial condition that results in a payment default (failure to make scheduled interest or principal payments), rating downgrade, or inability to meet a financial obligation. Dividends and fixed income distributions will vary and are not guaranteed.

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