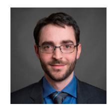
Can an Active All-Cap Approach Consistently Add Value Over Time?

And without a significant increase in risk?

October 2023

KEY INSIGHTS

- A criticism sometimes leveled at active management is that many strategies struggle to consistently deliver alpha across changing market conditions.
- We consider whether active stock picking, with the flexibility to invest across the full market cap spectrum, can consistently add value over time.
- Importantly, is it possible to deliver on this ambition of consistent added value without also taking on significant additional risk?



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One of the truisms of investing is that financial markets are constantly changing, continuously impacted by new information and rapidly evolving dynamics. Indeed, one of the criticisms sometimes leveled at active management is that many strategies struggle to consistently deliver alpha across various market environments. With this in mind, we consider what it means to be a high-conviction active manager and whether fundamental stock selection across the market capitalization spectrum can consistently deliver alpha generation across varying market and economic conditions.

All-Cap Remit Provides an Expansive Opportunity Set

Following a bull market run that lasted more than a decade, the U.S. equity market landscape has been much more volatile and uncertain over the past two years. This is where an actively managed all-cap strategy can be beneficial, providing an expansive opportunity set in which to find quality, well-managed businesses capable of generating alpha.

Successful navigation of different market environments is exactly what an all-cap strategy is designed to do, providing the flexibility to invest in companies of any size beyond the well-known and heavily invested large companies, and across the style spectrum, from high-growth to deep-value names. The ability to quickly adapt to new economic cycles and changing market dynamics is central to potentially delivering more consistent performance outcomes over time for investors.

Pursuing Alpha Through Various Market Conditions

The T. Rowe Price All-Cap Opportunities Fund aims to deliver long-term capital growth by generating alpha through various market conditions. The portfolio manager fully utilizes this

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all-cap flexibility by applying a unique stock-picking framework that centers on four key “pillars”: business quality, earnings expectations relative to the market, whether company fundamentals are improving or declining, and valuation. Each of these pillars is multifaceted, and rarely do all point in the same direction; rather, they are intended as a flexible framework to ensure that a wide variety of ideas are considered.

The framework is key in filtering the potential universe, and, importantly, it also helps to focus selection decisions on the fundamental truth that stock prices are ultimately a function of supply and demand over the short to medium term. When there are more incremental reasons for investors to want to buy a stock (i.e., it is in higher demand) and fewer incremental reasons to sell (i.e., supply it back to the market), then prices must find a higher equilibrium point.

Consistent good performance outcomes that the strategy strives for ultimately stem from the fact that the supply and demand framework can be applied in any market environment and helps to avoid becoming overexposed to either growth or value styles or any specific sectors. By keeping style/sector bets to a minimum to avoid potential blowups, we help ensure that active stock selection utilizing the full market cap spectrum remains the principal driver of performance over time.

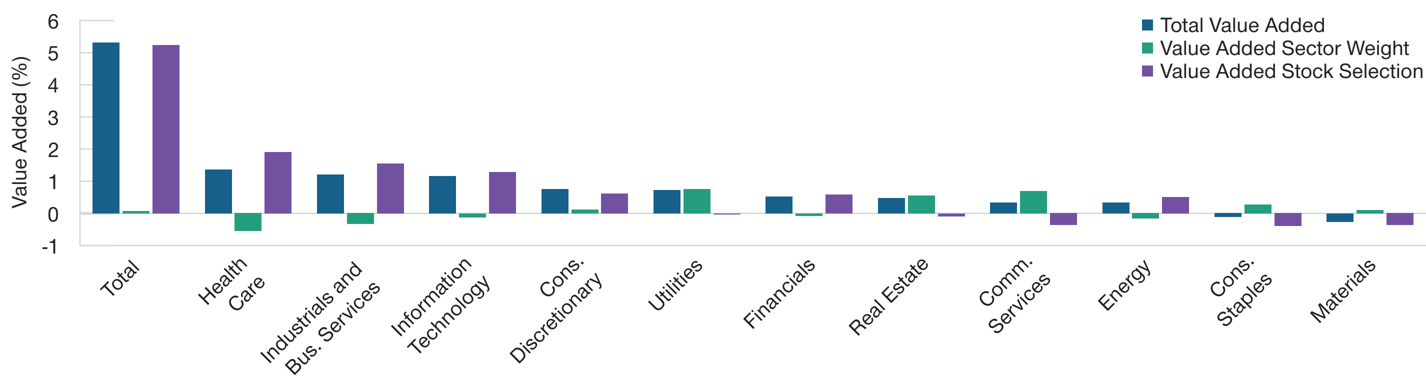
If we look at the one year performance attribution for the All-Cap Opportunities Fund, (Fig. 1), the data indicates that:

(1) positive stock selection accounted for almost 100% of the fund’s benchmark outperformance;

(2) the fund was broadly exposed to 10 of 11 market sectors (zero or near-zero exposure to utilities), with no significant active exposure in any one sector; and

Stock Selection the Principal Driver of Performance

(Fig. 1) T. Rowe Price All-Cap Opportunities Fund vs. Russell 3000 Index attribution analysis



Performance data quoted represents past performance and is not a reliable indicator of future performance. Investment return and principal value will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. To obtain the most recent month-end performance, visit troweprice.com.

As of September 30, 2023. For the one year period ending September 30, 2023. See Performance Appendix for the fund’s annualized total returns ending September 30, 2023.

Index returns shown with gross dividends reinvested.

All numbers are percentages.

Analysis represents the total performance of the portfolio as calculated by the FactSet attribution model and is inclusive of other assets. Non-equity positions are excluded from the structure shown. Returns will not match official T. Rowe Price performance because FactSet uses different exchange rate sources and does not capture intra-day trading.

T. Rowe Price uses the current MSCI/S&P Global Industry Classification Standard (GICS) for sector and industry reporting. Please see Additional Disclosures page for information about this Global Industry Classification Standard (GICS) information.

Sources: Financial data and analytics provider FactSet. Copyright 2023 FactSet. All Rights Reserved. MSCI/S&P GICS Sectors; Analysis by T. Rowe Price.

Performance for each security is obtained in the local currency and, if necessary, is converted to U.S. Dollars using an exchange rate determined by an independent third party. Figures are shown with gross dividends reinvested.

Figures are shown gross of fees. Returns would be lower as a result of the deduction of such fees.

Source for Russell Index Data: London Stock Exchange Group plc and its group undertakings (collectively, the “LSE Group”). Please see Additional Disclosures page for information about this FTSE Russell information.

(3) the fund exhibited positive stock selection in six out of 10 of those sectors and was broadly achieved across growth-oriented sectors (information technology), cyclical sectors (industrials and business services, financials, and energy), and defensive sectors (health care). The story is largely the same over longer time periods.

What makes this story more compelling still is the fact that the strategy has delivered healthy outperformance without taking on excessive risk, relative to the benchmark. A common method of determining portfolio risk, for example, is standard deviation, which measures the volatility or spread of asset prices when compared with the index. It is reasonable to expect that, in order to outperform the index, it is necessary to add risk, resulting in higher standard deviation. However, as Fig. 2 shows, this needn't be the case. Over the five-year period ending September 30, 2023, the All-Cap Opportunities Fund delivered 400 basis points of average annual outperformance but with almost zero additional risk (0.08% standard deviation) compared with the benchmark.

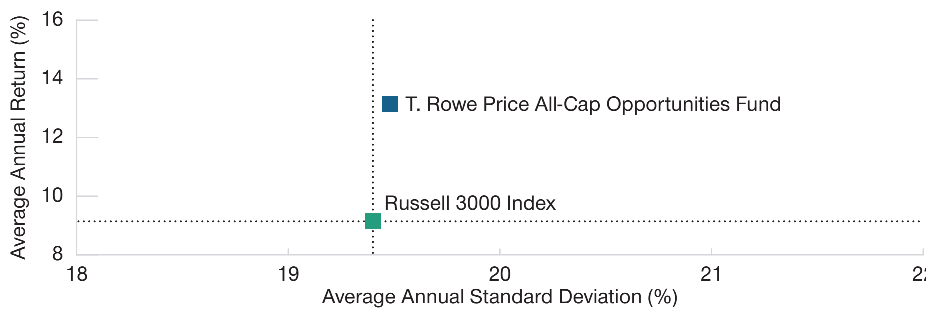
The successful navigation of variable market environments in recent times is particularly encouraging, given that this is exactly what an all-cap opportunities strategy aims to achieve: to provide dynamic exposure in order to generate alpha for investors, whatever the prevailing market environment.

Alpha Generation Without Excessive Risk

Risks to the near-term U.S. market and economic outlook remain prominent, so we are comfortable maintaining a more cautious stance, particularly as the current risk/reward profile of the U.S. equity market provides little incentive to add risk at this point. We believe strong stock selection will be key to generating outperformance in the near term as company valuation and fundamental strengths come sharply back into focus. This backdrop plays

Outperformance Need Not Mean an Increase in Risk

(Fig. 2) Risk vs. Return Analysis: T. Rowe Price All-Cap Opportunities Fund vs. Russell 3000 Index



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As of 5 years ended September 30, 2023. For the 5 year period commencing October 1, 2018 and ending September 30, 2023.

Figures are calculated using monthly data and are net of fees. See Performance Appendix for the fund annualized total returns ending September 30, 2023.

Index returns shown with gross dividends reinvested.

Source for Russell Index Data: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). Please see Additional Disclosures page for information about this FTSE Russell information.

to the strengths of active stock picking. Moreover, the large U.S. equity market means that investors with an all-cap remit can potentially benefit from tapping a broad range of opportunities throughout the market capitalization spectrum and across investment styles, sectors, and industries. Ultimately, consistent alpha generation without taking on excessive short-term relative risk is possible. However, we believe it requires high-conviction stock picking, with the flexibility to invest across the market spectrum, and a fundamental understanding of intrinsic company value.

PERFORMANCE

All-Cap Opportunities Fund

As of 30 September 2023. Figures calculated in US dollars.

	Annualized Returns (%)			
	One Year	**Five Years**	**Ten Years**	**Since Manager Inception***
All-Cap Opportunities Fund (Net of Fees)	24.84	13.14	14.77	16.50
Russell 3000 Index†	20.46	9.14	11.28	11.85
Value Added (Net of Fees)‡	**4.38**	**4.00**	**3.49**	**4.65**

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The fund's expense ratio as of the most recent prospectus was 0.81%. See the prospectus for details.

The fund is subject to the volatility inherent in common stock investing, and its share price may fluctuate more than a fund investing in income-oriented stocks.

The fund(s) may have other share classes available that offer different investment minimums and fees. See the prospectus for details. The fund's total return figures reflect the reinvestment of dividends and capital gains, if any.

Prior to 1 March 2021, the name of the All-Cap Opportunities Fund was the New America Growth Fund.

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*31 Mar 2016 represents the date the Portfolio Manager took over lead management responsibility for the fund.

† Index returns shown with gross dividends reinvested.

‡ The Value Added row is shown as All-Cap Opportunities Fund (Net of Fees) minus the benchmark in the previous row.

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