



Integrated Equity

A unique approach to quantitative and fundamental research integration in equity portfolios

Peter Stournaras, Head, Integrated Equity Group, T. Rowe Price Group Inc.

Investment Innovation Conference | November 2024

FOR ACCREDITED INVESTORS ONLY. NOT FOR FURTHER DISTRIBUTION.

Philosophy—Better analysis, better decisions

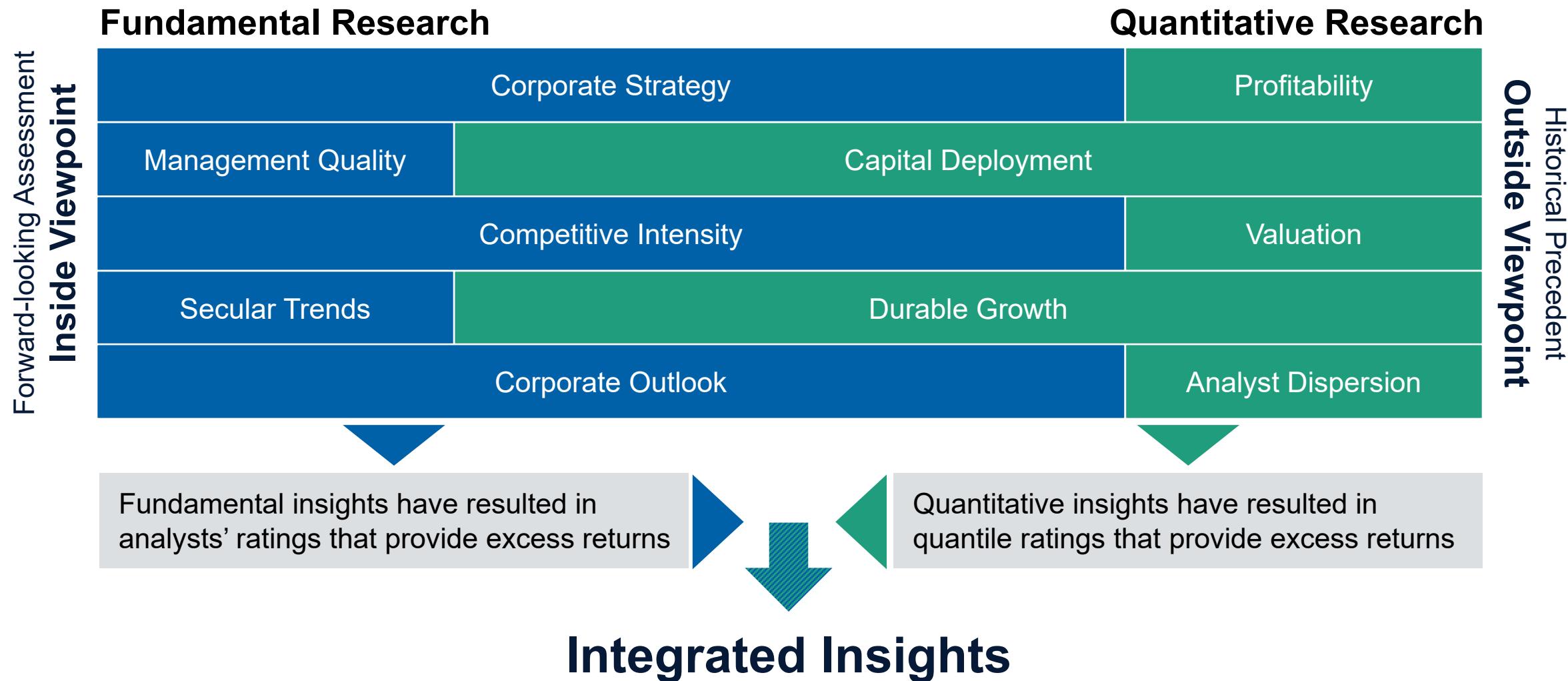
The Inside View

- What we know about the situation
- Your contractor's estimate
- Fundamental Research

The Outside View

- How other similar situations have unfolded
- Your contractor's other projects
- Quantitative Research

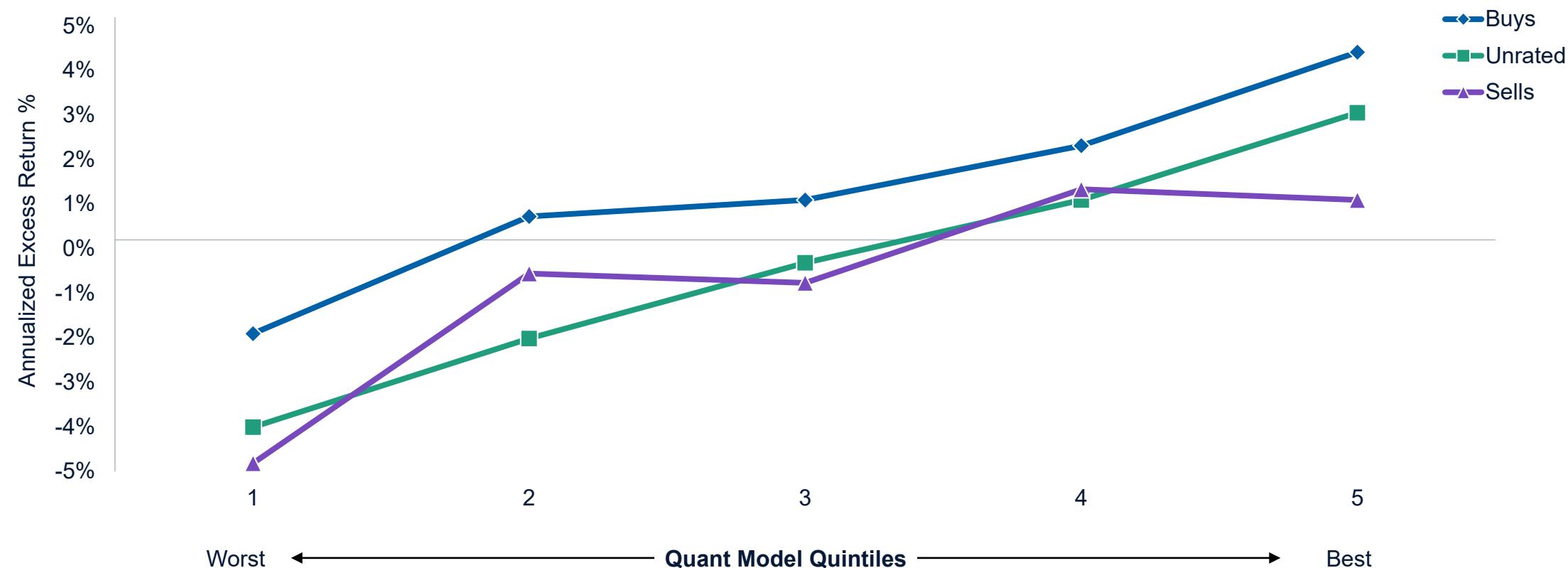
What is Integrated Equity?



Combining the Inside View and the Outside View

Excess Return by Intersection of Fundamental Rating and Quant Quintile

MSCI ACWI Universe June 2005 – December 2023



Past performance is not a reliable indicator of future performance.

Annualized excess returns of the MSCI All Country World Index over median stock return within the MSCI All Country World Index universe over time period 30 June 2005 - 31 December 2023, most recent data available.

Source I/B/E/S © 2024 Refinitiv. All rights reserved.

The quant model quintiles are the rankings from our stock selection model, from best to worst by quintile of the MSCI ACWI. 1 is the lowest ranked quintile and 5 is the best ranked.

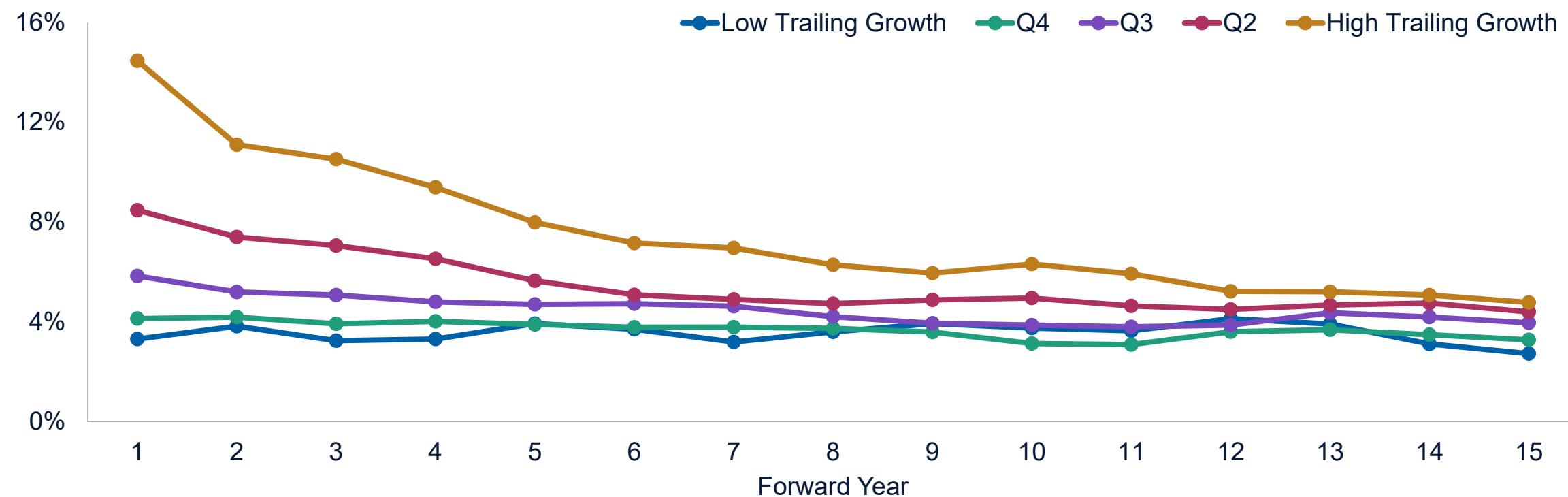
Please see the Additional Disclosures page for additional legal notices and disclaimers.

Sales growth is mean reverting

As of August 31, 2024

Strong fundamentals generally mean-revert

Russell 1000: Sales Growth Reversion



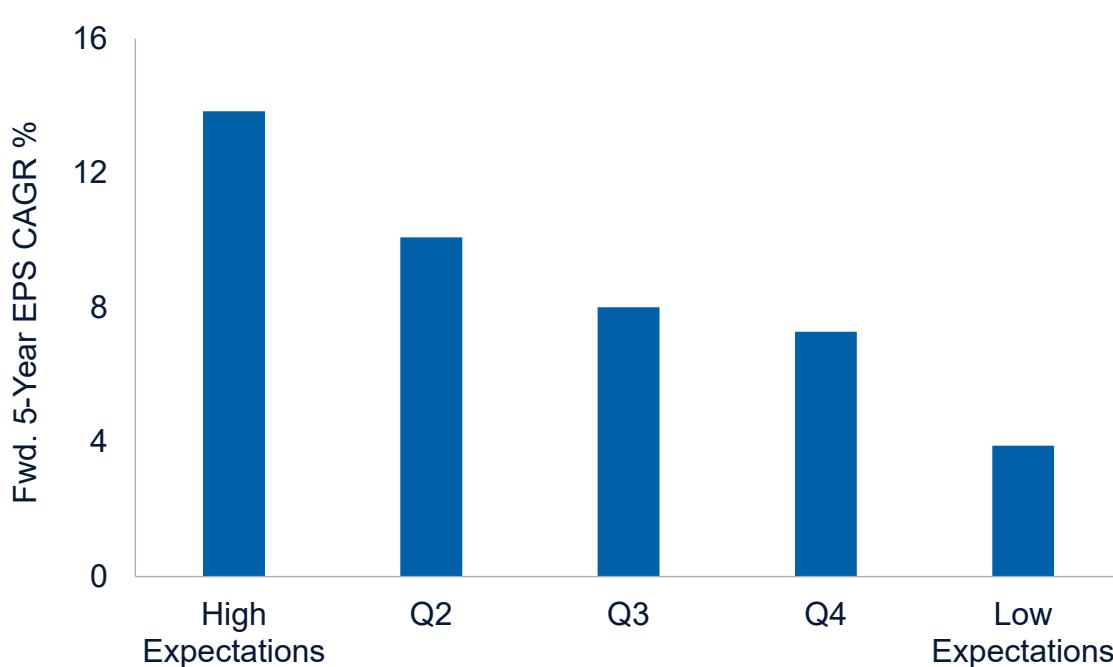
Sources: Russell, Compustat, FactSet. Analysis by T. Rowe Price. See Appendix for additional detail. Analysis covers the Russell 1000 Index from 1990–2024. T. Rowe Price calculations using data from FactSet Research Systems, Inc. All rights reserved. See Additional Disclosures.

High-expectation stocks

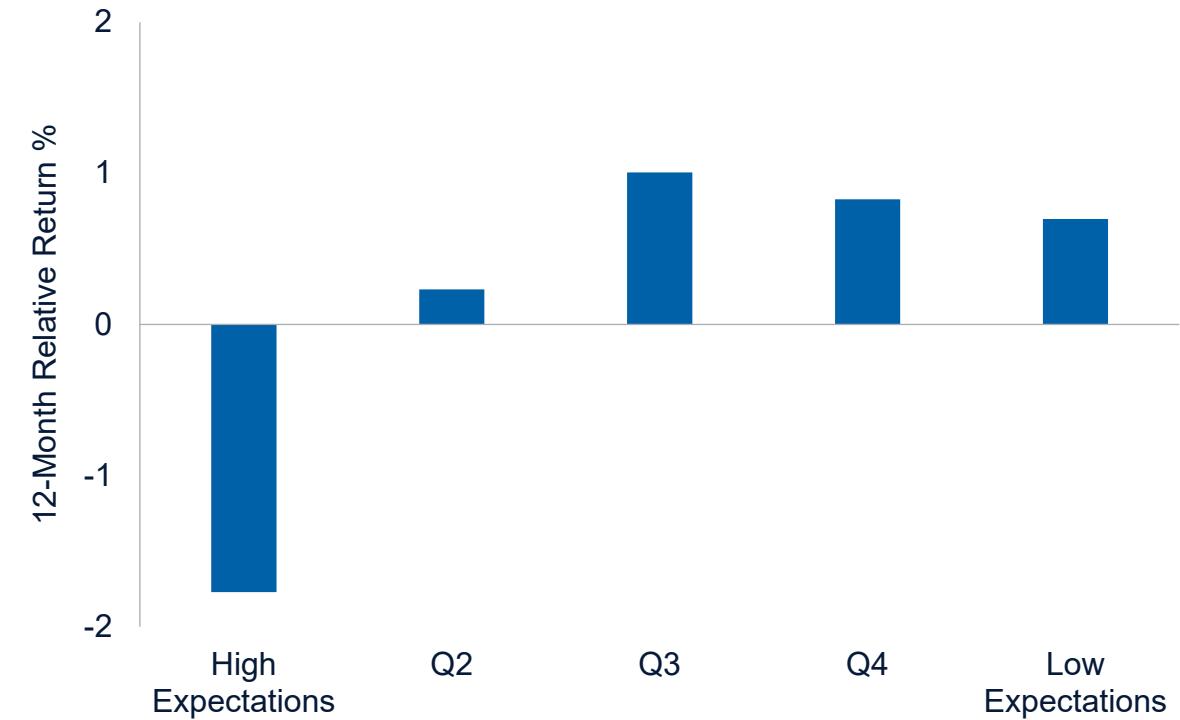
As of August 31, 2024

While high-expectation stocks have generally experienced above-average future growth, they also experienced below-average stock returns

Russell 1000: Realized Future 5-Year EPS Growth



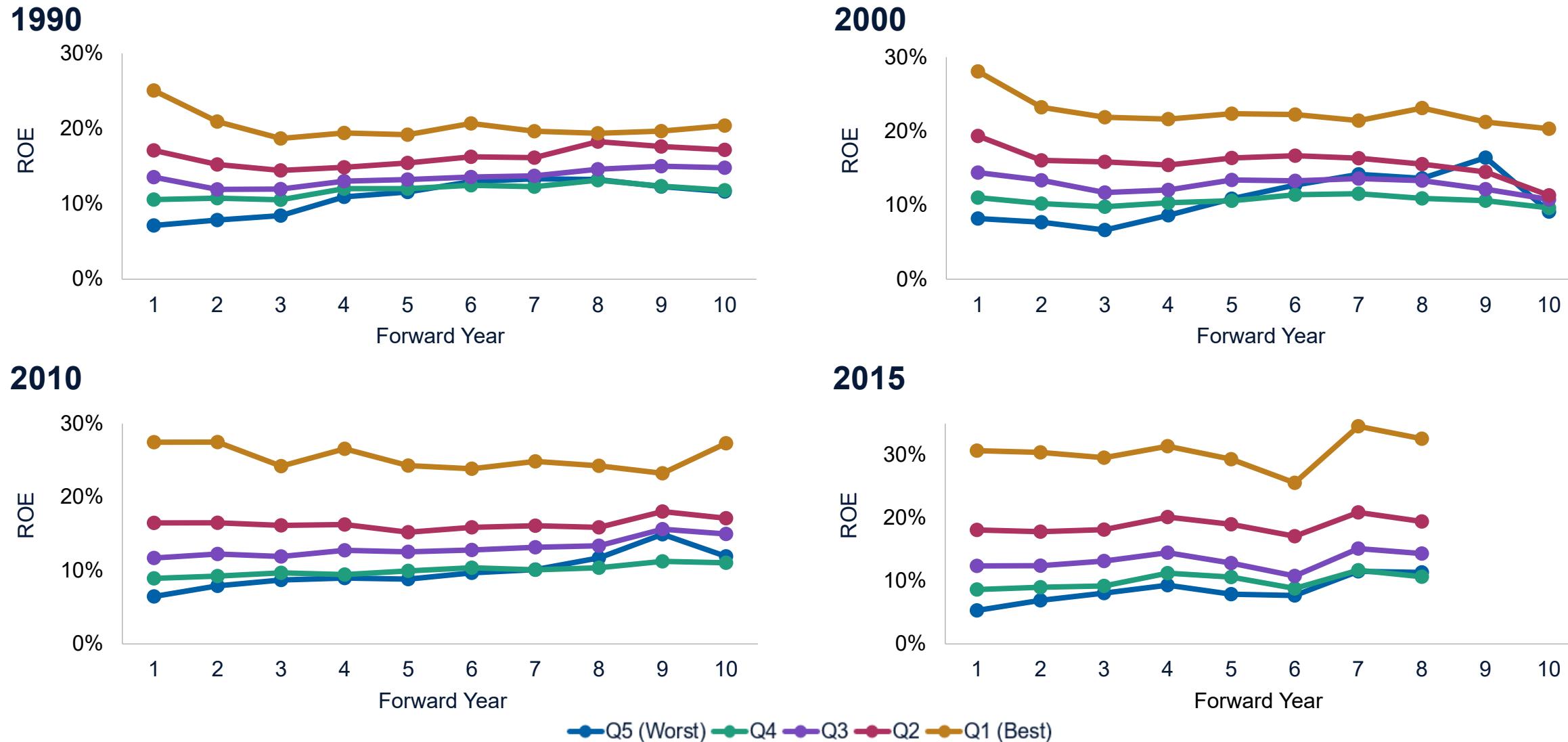
Russell 1000: Forward 12-Month Excess Returns



Past performance is not a reliable indicator of future performance.

Sources: Russell, IBES, Compustat, FactSet. Analysis by T. Rowe Price. High expectations are defined as high sell-side consensus long-term earnings growth rate. Analysis covers the Russell 1000 Index from 1990–2024. Quintiles are rebalanced monthly and are equal-weighted and compared to an equal-weighted universe of the Russell 1000 Index universe. T. Rowe Price calculations using data from FactSet Research Systems, Inc. All rights reserved. See Additional Disclosures. I/B/E/S © 2024 Refinitiv. All rights reserved.

Increasing Persistence of Winners

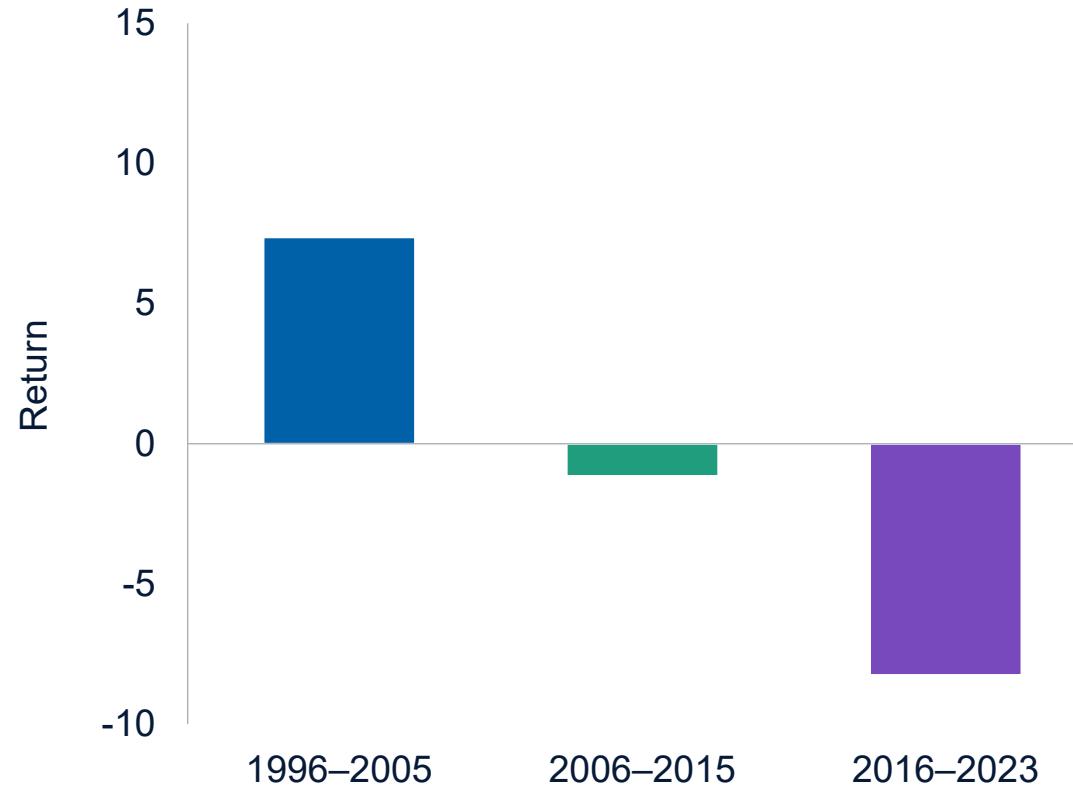


Source: FactSet, Analysis by T. Rowe Price. The Russell 1000 Index is the universe for the ROE Quintiles, with the x-axis representing the forward year values for the respective time-period plotted.

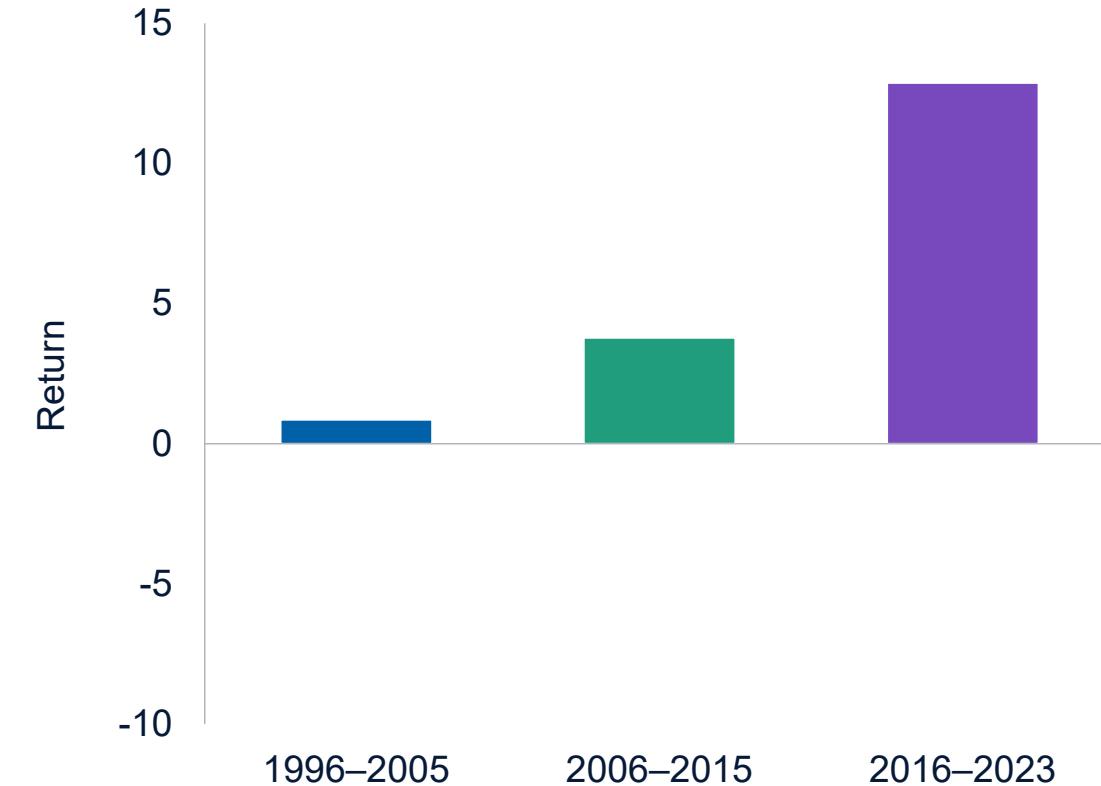
Value and Durable Growth Performance by Decade Group

Periods from 1996 through 2023

Average 12-Month Forward Returns of Value Long-Short by Decade



Average 12-Month Forward Returns of Durable Growth Long-Short by Decade



Left chart sources: LSEG, IDC data, Compustat, and Russell. Analysis by T. Rowe Price. See Additional Disclosures. The universe is the Russell 1000 Index for value quintiles for periods from 1996 through 2023. Returns are calculated using a cap-weighted 12-month forward return of the quintile spreads.

Right chart sources: LSEG, IDC data, Compustat, Russell, and FactSet. Analysis by T. Rowe Price. See Additional Disclosures. The universe is the Russell 1000 Index for durable growth scores for periods from 1996 through 2023. Returns are calculated using a cap-weighted 12-month forward return of the durable growth spreads.

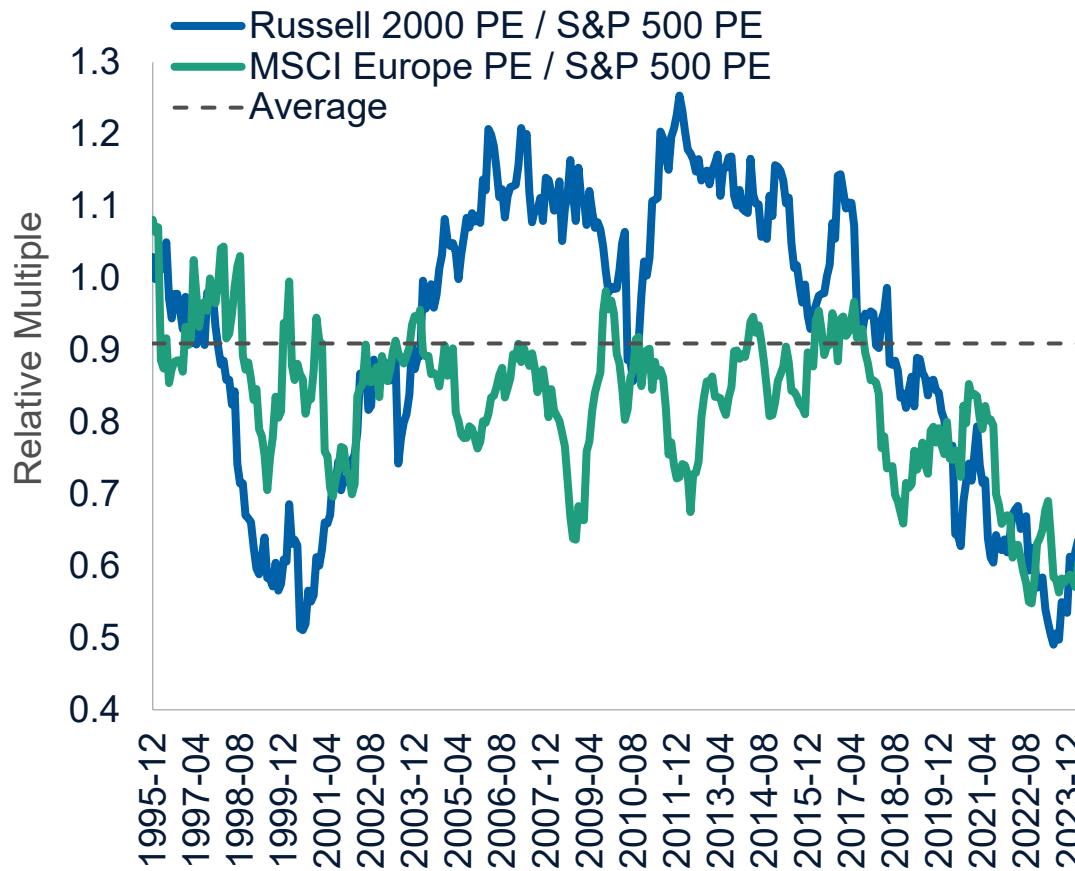
Durable growth: a five-factor framework developed to identify companies that have demonstrated superior growth in a sustainable way.

Quintile spread: Also referred to as long-short returns, is calculated by sorting securities based on a specific characteristic or factor criterion, dividing them into five groups (or quintiles), equal-weighting the securities within each quintile, and then subtracting the bottom-quintile returns (lowest 20%) from the top-quintile returns (highest 20%).

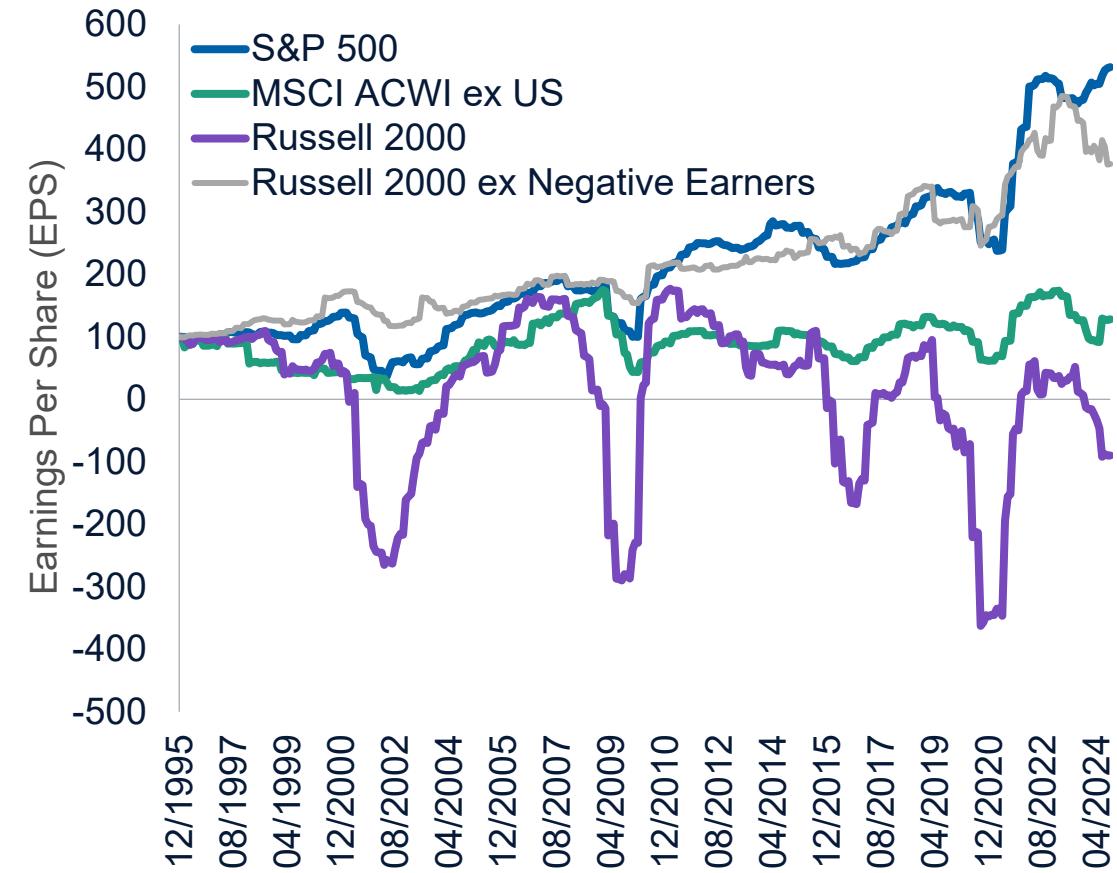
Value and Durable Growth Performance by Decade Group

As of September 30, 2024

Relative PE to S&P 500



Trailing EPS (Indexed to December 1995)

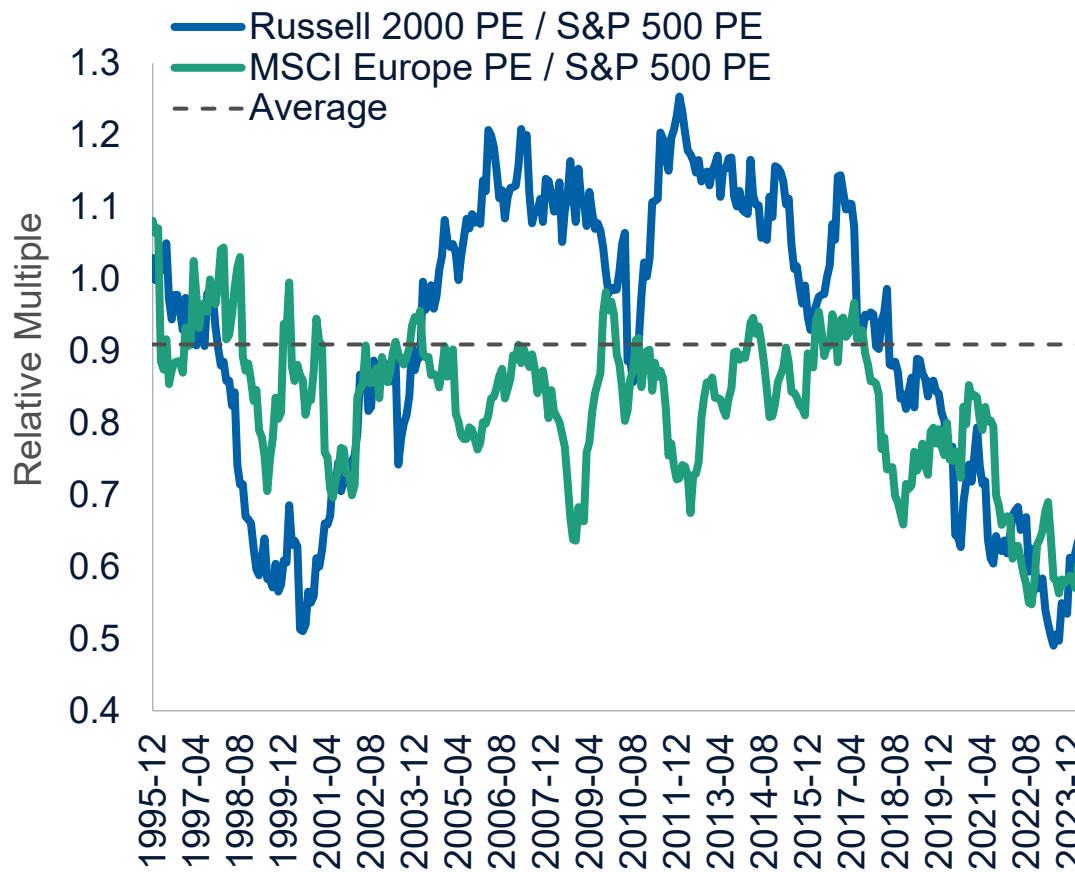


Sources: LSEG, IDC data, Compustat, MSCI, Russell, and S&P Global. Analysis by T. Rowe Price. See Additional Disclosures.

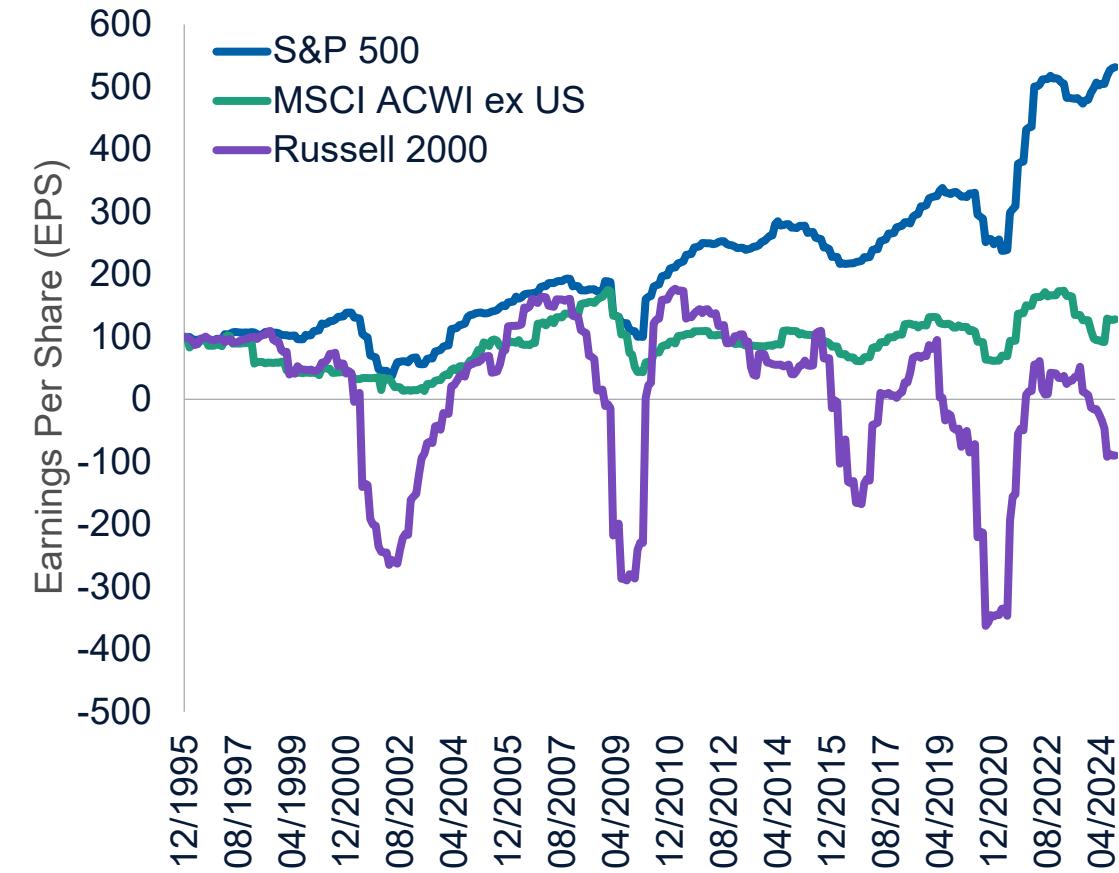
Value and Durable Growth Performance by Decade Group

As of September 30, 2024

Relative PE to S&P 500



Trailing EPS (Indexed to December 1995)

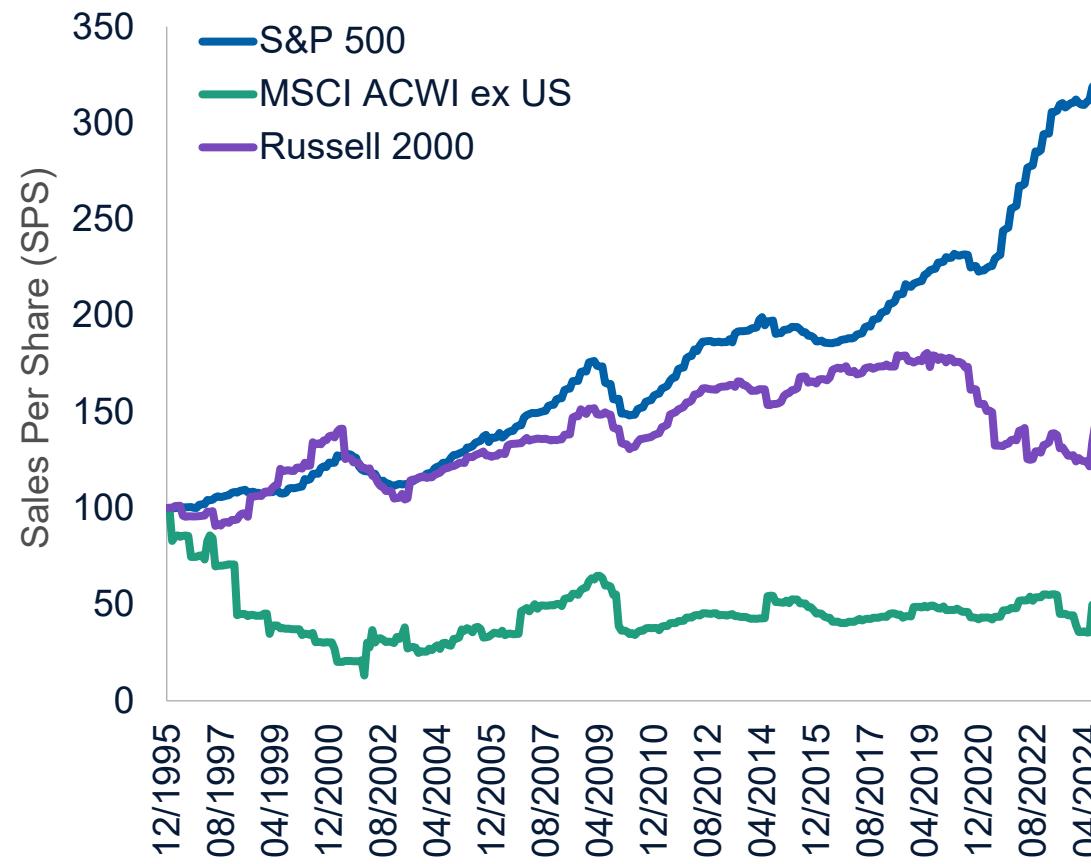


Sources: LSEG, IDC data, Compustat, MSCI, Russell, and S&P Global. Analysis by T. Rowe Price. See Additional Disclosures.

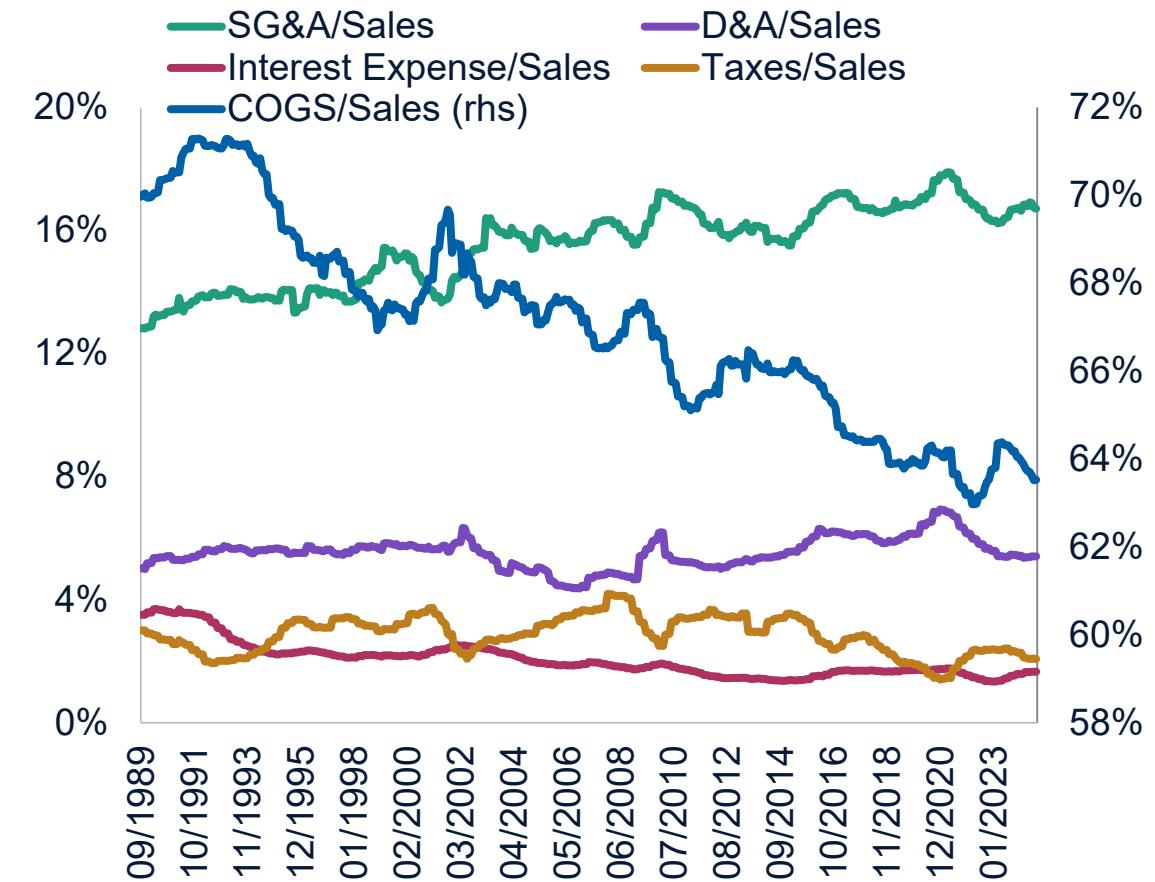
Value and Durable Growth Performance by Decade Group

As of September 30, 2024

Trailing SPS (Indexed to December 1995)



Margin Improvement



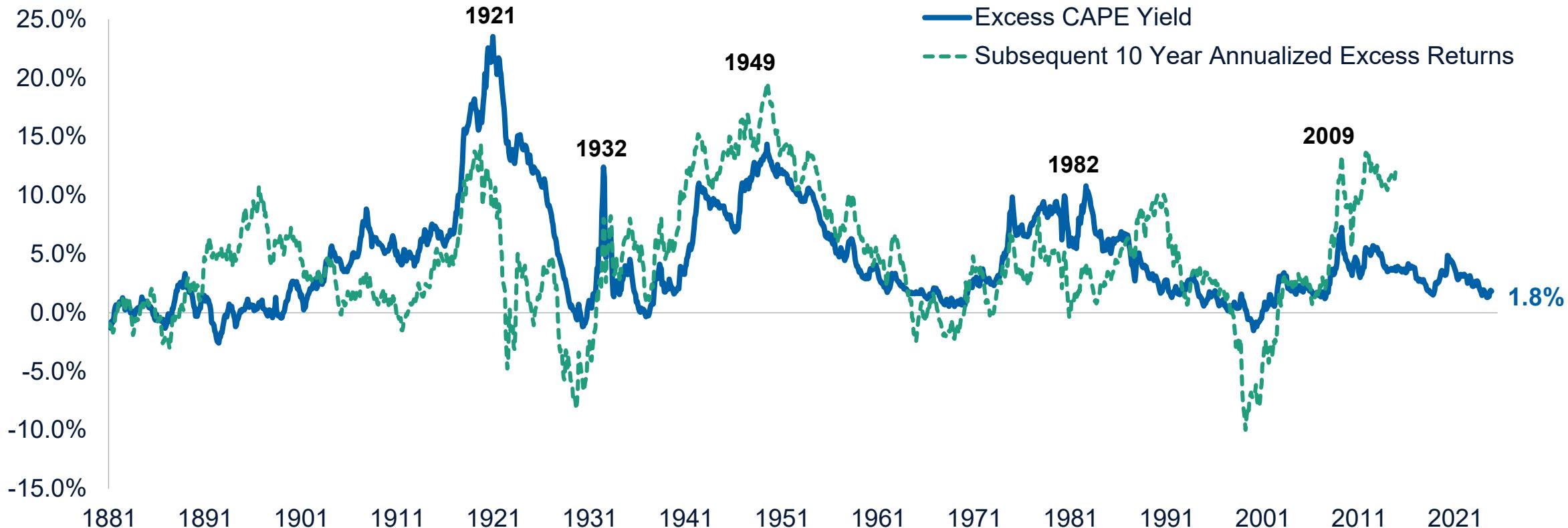
Sources: LSEG, IDC data, Compustat, MSCI, Russell, and S&P Global. Analysis by T. Rowe Price. See Additional Disclosures.

Abbreviations: SG&A - selling, general & administrative; D&A - depreciation and amortization; COGS - cost of goods sold.

Forward 10-year returns are going to be challenged

As of October 31, 2024

Excess CAPE Yield (ECY) and Subsequent 10 Year Annualized Excess Returns



Source: Robert Shiller (http://www.econ.yale.edu/~shiller/data/ie_data.xls)

Small cap relative valuations attractive on the surface...

As of July 31, 2024

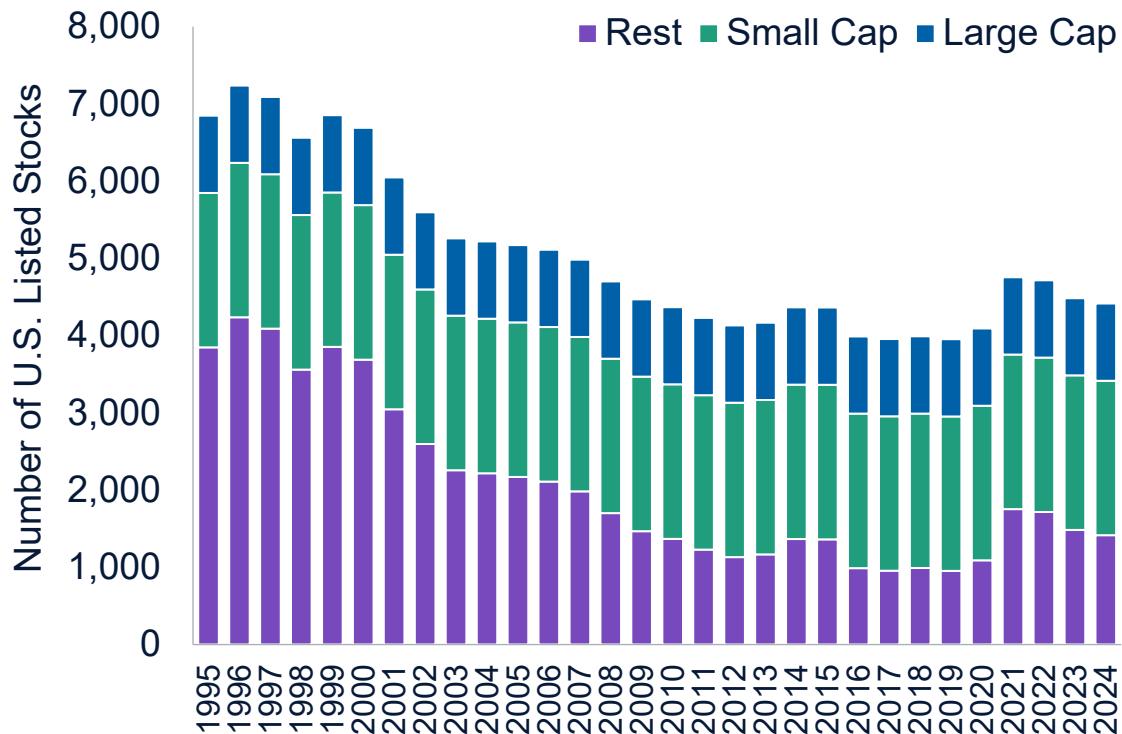


Source: Russell, IDC data/Refinitiv. Analysis by T. Rowe Price. See Additional Disclosures. This chart is showing Russell 2000 relative valuation to Russell 1000 in terms for Forward Price to Earnings. Valuation measurement is based on aggregated 12-month forward price-to-earnings ratio, excluding real estate and substituting with trailing 12-month earnings when next 12-month earnings are not available.

...due in part to weaker fundamentals...

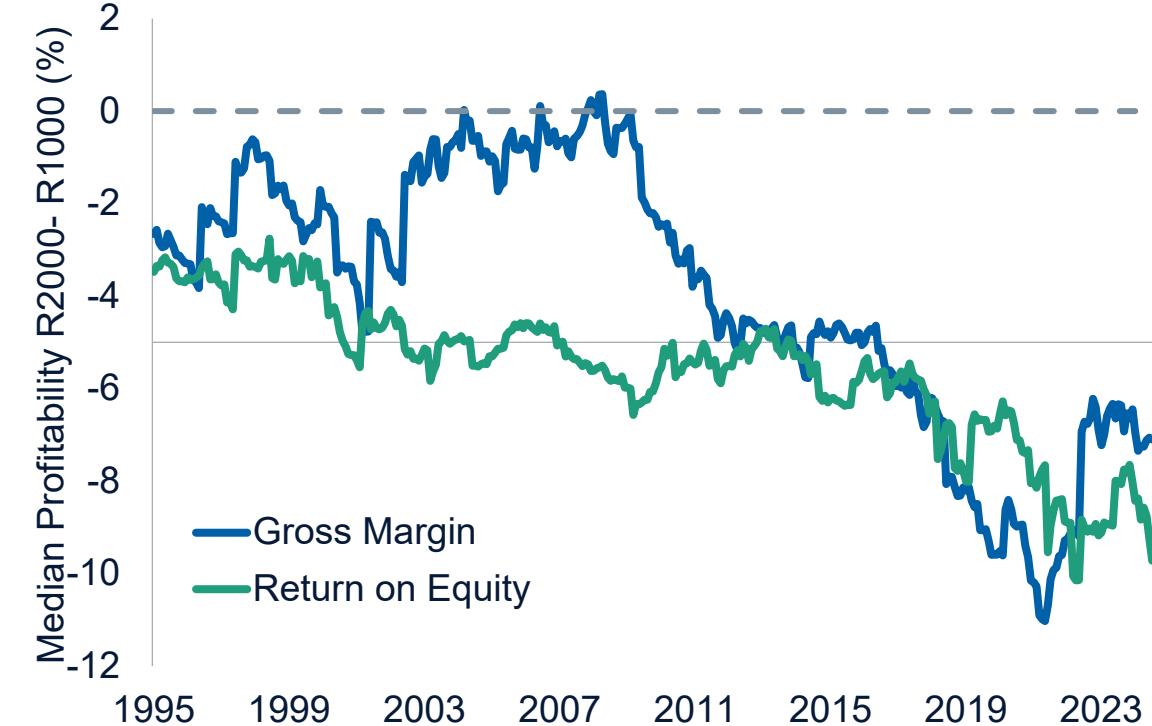
Shrinking universe of stocks

As of August 31, 2024



Lagging profitability

As of July 31, 2024



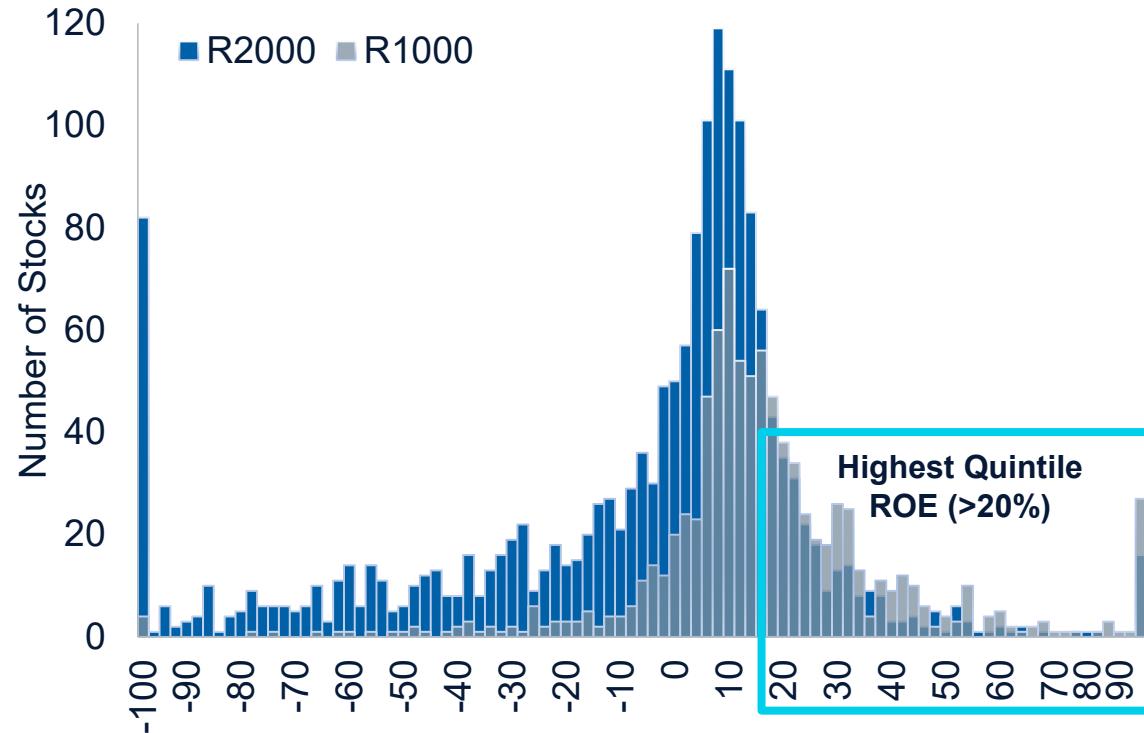
Left chart sources: Russell, Northfield, FactSet. Analysis by T. Rowe Price. See Additional Disclosures. Analysis based on Russell 3000 and Northfield U.S. Indexes, excluding real estates, ADRs, preferred stocks, SPACs, and non-U.S.-listed stocks.

Right chart sources: Russell, Compustat. Analysis by T. Rowe Price. See Additional Disclosures. This chart measures differences between Russell 2000 and Russell 1000 (both excluding real estate) median return on equity and median gross margin, where charted factors are available. Data reflect trailing gross margins and return on equity.

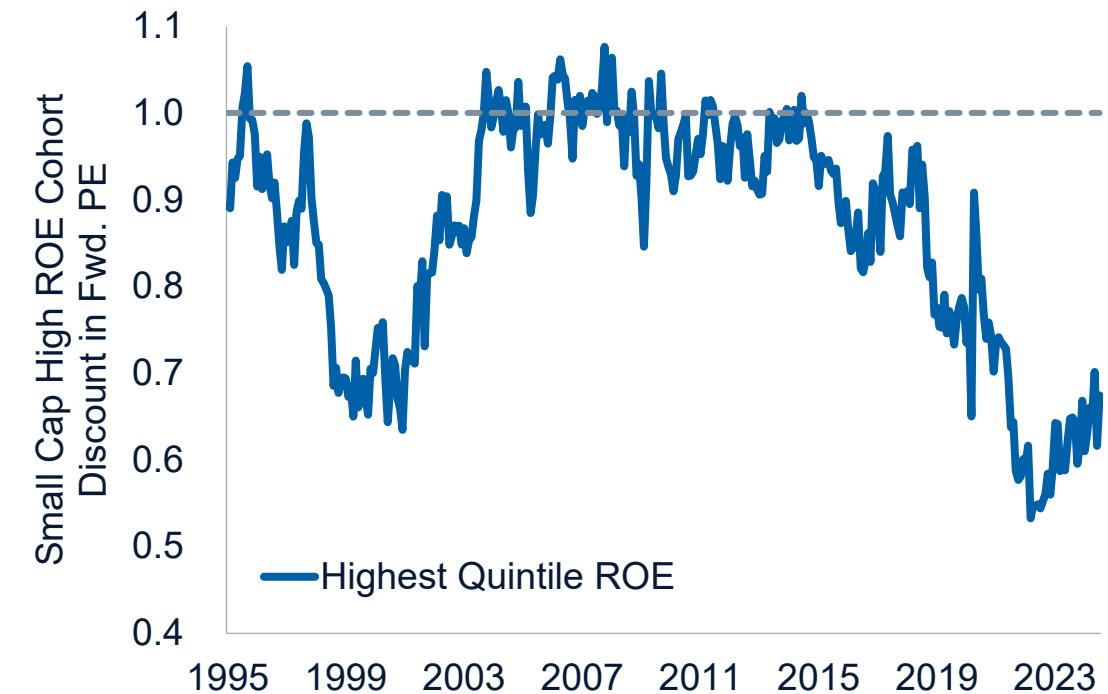
...but high-quality small caps are historically cheap

As of July 31, 2024

Identifying small caps with comparable
ROEs to the best large caps...



...indicates an historic discount



Left chart sources: Russell, IDC data/Refinitiv, Compustat, FactSet. Analysis by T. Rowe Price. See Additional Disclosures. This chart shows the distribution of ROE ratios of Russell 2000 and Russell 1000 constituents, excluding real estate, capped between -100% and 100%. ROE is calculated by dividing the last 12 months' earnings of individual companies by the average of their book value.

Right chart sources: Russell, IDC data/Refinitiv, Compustat, Thomson/IBES, MSCI. Analysis by T. Rowe Price. See Additional Disclosures. Valuation measurement is based on median 12-month forward price to earnings, where ROE and forward price to earnings are available, excluding real estate. This chart measures valuation differences between small-cap stocks and large-cap stocks that rank in the first quintile of ROE in the Russell 3000 universe. Quintiles based on ROE are reconstituted monthly. ROE is calculated by dividing the last 12 months' earnings of individual companies by the average of their book value..

What should you remember in two weeks

- Combining the inside and outside view helps you make better decisions
- The outside view says, the U.S. is expensive
- The inside view says, valuation disparity is justified
- But there are opportunities to be found when combining the views

Additional disclosures

Copyright © 2024, S&P Global Market Intelligence (and its affiliates, as applicable). Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold such investment or security, does not address the suitability of an investment or security and should not be relied on as investment advice. Credit ratings are statements of opinions and are not statements of fact.

© 2024 Refinitiv. All rights reserved.

T. Rowe Price calculations using data from FactSet Research Systems Inc. All rights reserved.

London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2024. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

Source: MSCI. MSCI and its affiliates and third party sources and providers (collectively, "MSCI") makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. Historical MSCI data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

Source: Barra. Barra and its affiliates and third party sources and providers (collectively, "Barra") makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any Barra data contained herein. The Barra data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by Barra. Historical Barra data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the Barra data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

Important information

This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date noted on the material and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

Canada - Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

Residents of Quebec may request a French translation of this document. Please contact CanadaTranslationRequests@troweprice.com. *Les résidents du Québec peuvent demander une traduction française de ce document. S'il vous plaît contactez CanadaTranslationRequests@troweprice.com*

© 2024 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.