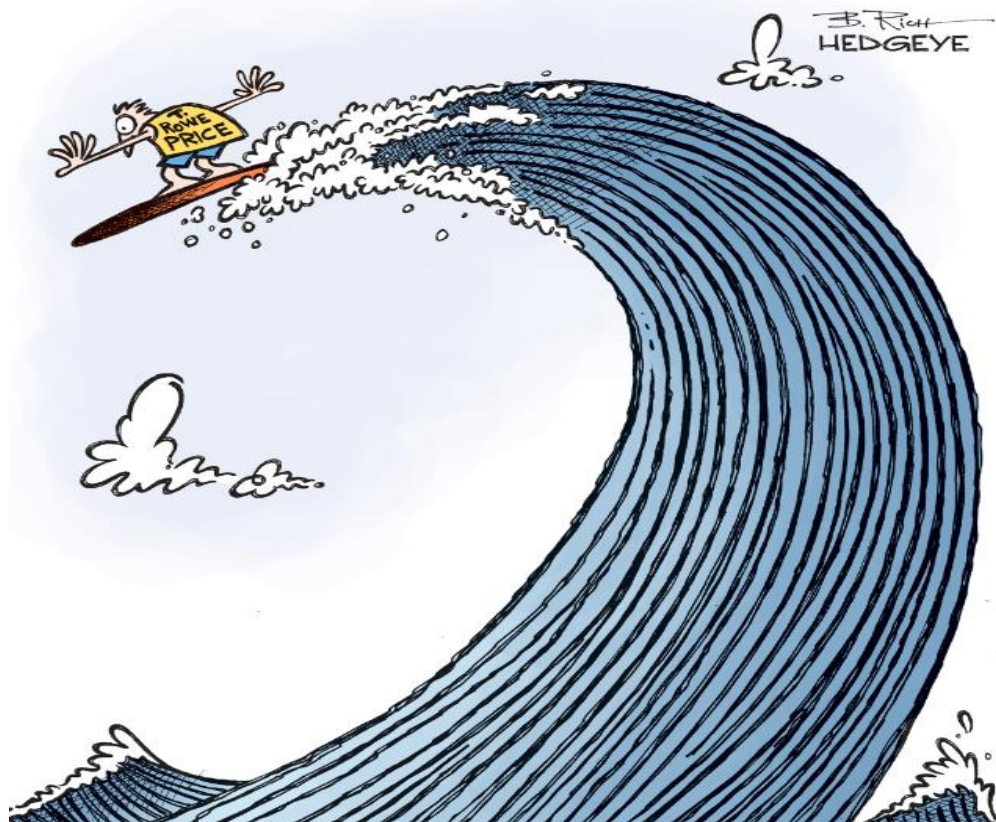




T. ROWE PRICE (TROW)

RIDING MARKETS
BEST IDEAS SHORT



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DISCLAIMER

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PLEASE SUBMIT QUESTIONS* TO

QA@HEDGEYE.COM

**ANSWERED AT THE END OF THE CALL*

TROW – OUR HISTORY



HEDGEYE FINANCIALS

08/20/14 08:36 AM EDT

TROW - DON'T BET THE TURNS BUT RIDE THE TRENDS - T ROWE TO UNDERPERFORM WITH LARGE CAP IN DURESS

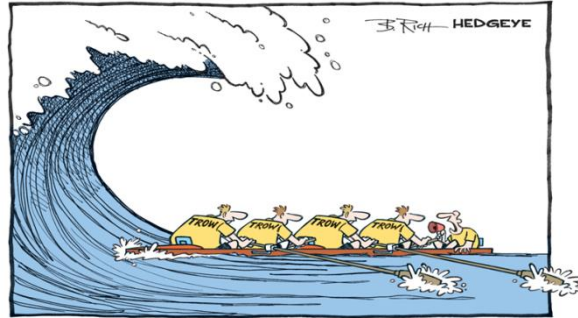
JONATHAN CASTELEYN, CFA
JOSHUA STEINER, CFA



HEDGEYE

Takeaway: *T Rowe Price shares should underperform Institutional Large Cap equity and the retail equity market over the next 12 months.*

- *T Rowe Price (TROW) shares should underperform Institutional Large Cap equity and the retail equity market regardless of investment performance over the next 12 months. This exposure for T Rowe Price is a managed account balance or over 10% of the portfolio.*



T. ROWE PRICE (TROW)

PADDLING UPSTREAM – BEST IDEAS SHORT

March 2016

Shares of TROW have been on our **Best Ideas Short list since August 2014** when the stock was over **\$80**. Shares have been in a downtrend but with the Trump pop, shares are a fresh money Short again in our view.

TROW: INTRO

Name:		T. Rowe Price Group
Ticker:		TROW
Market Cap \$MM	\$	18,119
TMM Revenues \$MM	\$	4,183
Pretax Margin		44%
AUM \$MM	\$	812,000
Dividend Yield		2.9%
Short Interest as a % of Float		5.3%
Insider Ownership		15.0%
Cash balance \$MM	\$	1,401
Long Term Debt \$MM	\$	-
Annual Free Cash Flow \$MM	\$	1,100

Largest Asset Management Complexes		
<u>Rank</u>	<u>Manager</u>	<u>AUM \$BB</u>
1	BlackRock	\$ 5,117
2	Vanguard	\$ 3,600
3	StateStreet	\$ 2,651
4	Fidelity	\$ 2,015
5	JP Morgan	\$ 1,772
6	Allianz	\$ 1,701
7	UBS Group	\$ 1,600
20	Wellington	\$ 1,151
25	Metlife	\$ 840
26	T. Rowe Price	\$ 812
27	Invesco	\$ 737
28	Franklin Resources	\$ 733
Industry Total		\$ 45,102

WHO IS T. ROWE PRICE?

Founded in 1937 TROW is a leading stock fund manager with headquarters in Baltimore Maryland. The company employs 6,239 associates.

TROW: INTRO

Equity Mutual Funds
Fixed Income Funds
Separately Managed Accts
Total AUM

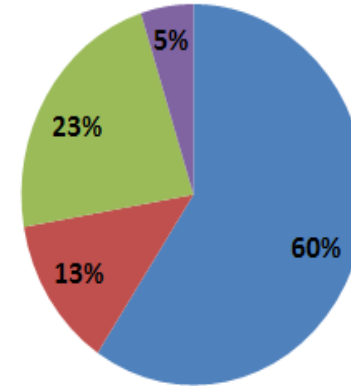
	Total AUM in \$BB	%
Equity Mutual Funds	\$ 403	50%
Fixed Income Funds	\$ 114	14%
Separately Managed Accts	\$ 296	36%
Total AUM	\$ 813	100%

Mutual Funds
Target Date Retirement Mutual Funds
Total Mutual Funds

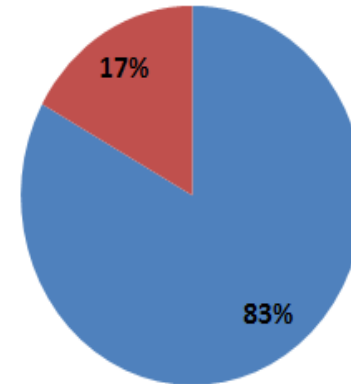
	Mutual Fund AUM in \$BB	%
Mutual Funds	\$ 328	64%
Target Date Retirement Mutual Funds	\$ 189	36%
Total Mutual Funds	\$ 517	100%

U.S. Equities
International Equities
Stable Value
Bonds and money market
Total SMA

	Separately Managed Acct AUM in \$BB	%
U.S. Equities	\$ 193	65%
International Equities	\$ 32	11%
Stable Value	\$ 20	7%
Bonds and money market	\$ 51	17%
Total SMA	\$ 296	100%



Stock Mutual Funds Revenue
Bonds and money market Revenue
Stock SMA Revenue
Bond SMA Revenue



Total Equity Revenue
Total Fixed Income Revenue

THESIS: A BLUE CHIP COMPANY WITH BLUE TRENDS

1

3 YEAR MORNINGSTAR HANGOVER

3 Year Morningstar numbers are about to rollover because TROW will be swapping an excellent 2013 for a year of relative underperformance in 2016. This puts over \$140 billion of 4 star rated mutual funds on the cusp of lower ratings. 3 star rated product experience little or no flow.

2

PASSIVES CONTINUING TO ATTACK CORE AND TARGET DATE

TROW has the biggest Large Cap equity exposure of the public asset managers, which is exactly where industry losses to passives occur. In addition, the firm continues to fight this market share shift with over 20% of its funds closed to protect performance or for use by its Target Date business. TROW's target date franchise is the only source of growth now in the mid single digits as baby boomers retire and passive share growth continues.

3

MARGIN COMPRESSION ON COSTS

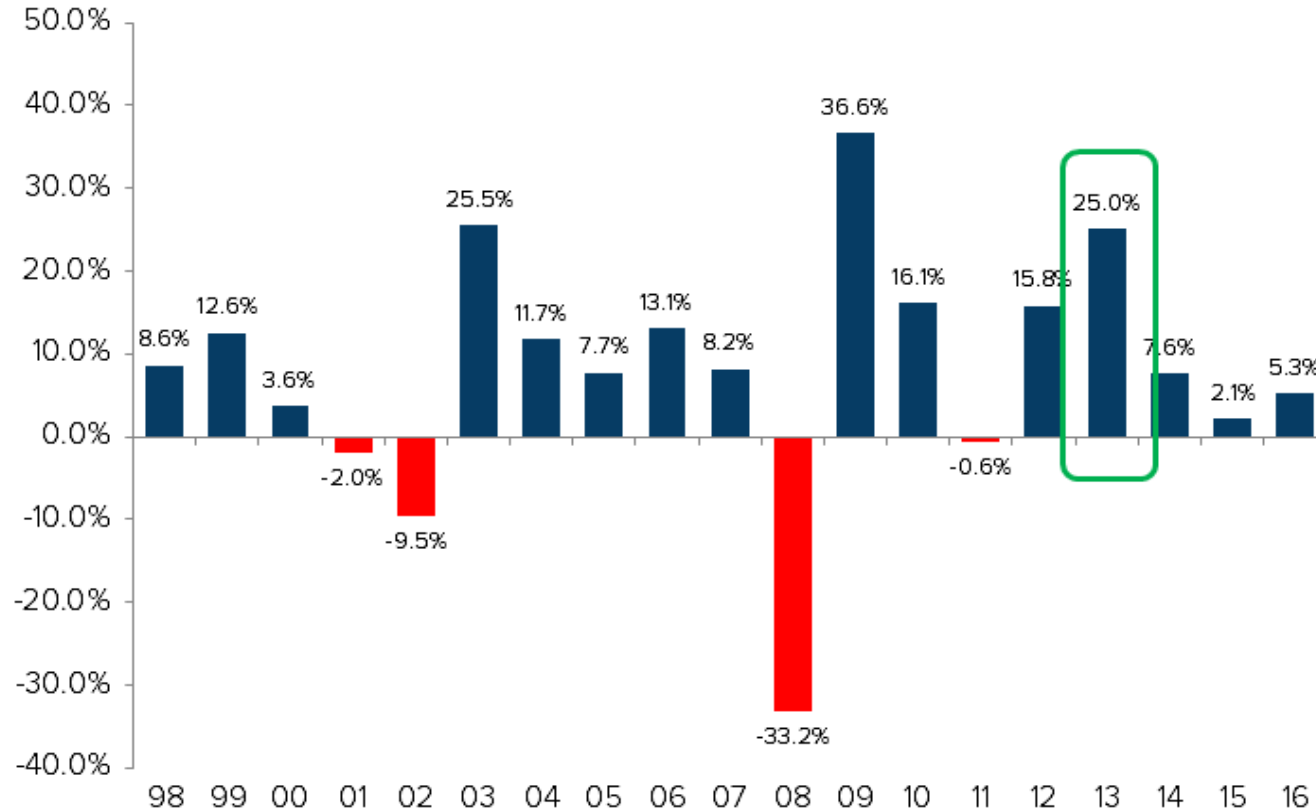
We expect continued operating margin compression on the business as fees continue to drop in the industry in combination with an investment cycle by the company to build out its European distribution. TROW margins are past peak and we see operating margin under 40% into 2018 with earnings over -20% below Consensus.

3 YEAR MORNINGSTAR ROLLOVER



3 YEAR MORNINGSTAR ROLLOVER

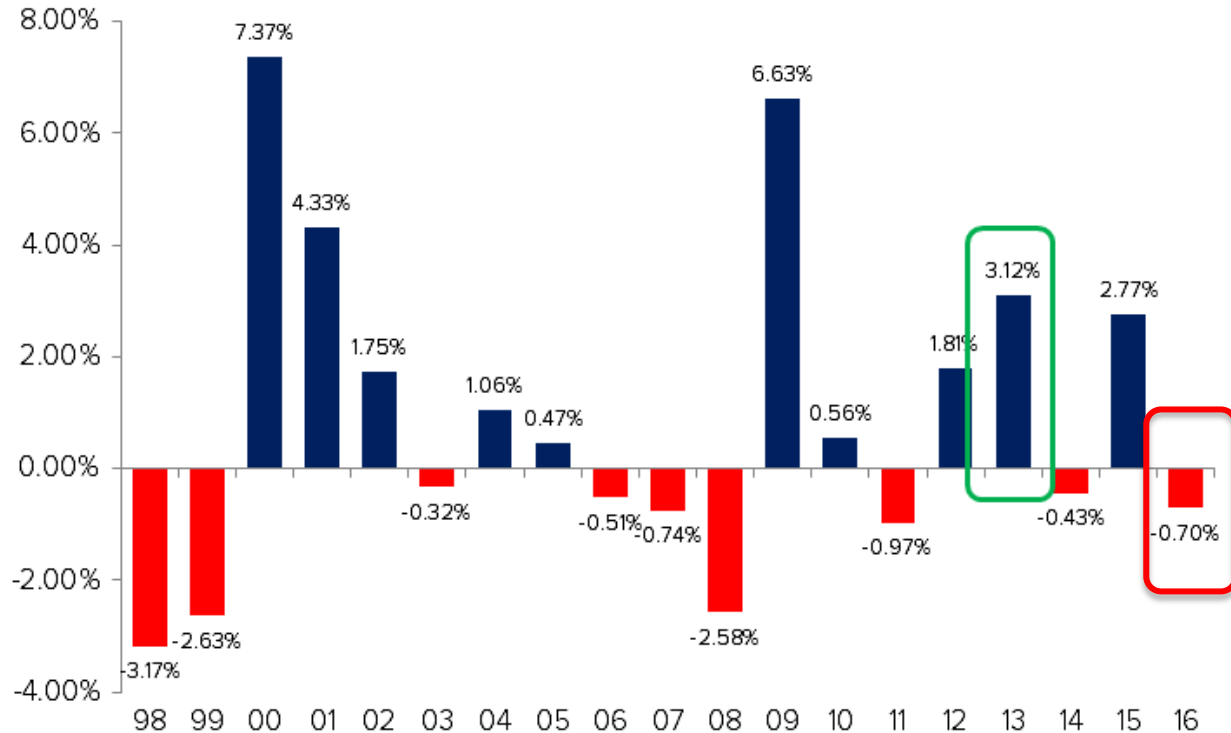
TROW Asset Weighted Mutual Fund Returns



T. Rowe had its **3rd best year** in recent history in **2013**, as equity markets hit **new all time highs at the time** and **low bond yields** (and the taper tantrum) moved money off of the sidelines and from bonds **into stocks**.

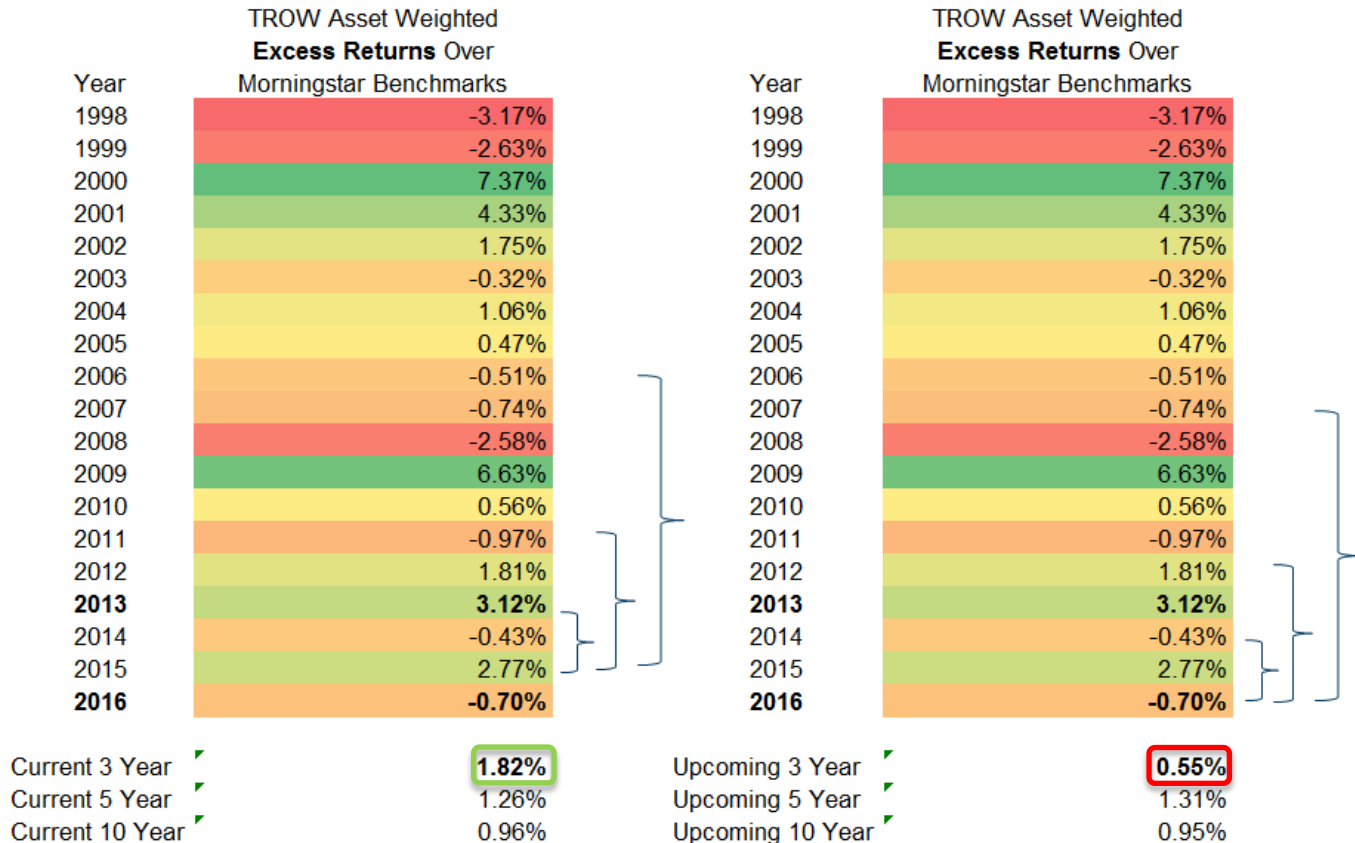
3 YEAR MORNINGSTAR ROLLOVER

TROW Asset Weighted Excess Returns Over Morningstar Benchmarks



Most importantly, **TROW's excess returns** compared to its Morningstar peers put in its **best year** since '09 with over **300 bps** of outperformance. 2016 conversely has been the worst year since '11 with **-70 bps** of underperformance versus peers

3 YEAR MORNINGSTAR ROLLOVER



The shift
forward into
weak relative
returns for 2016
and the
dropping off of
the **stellar** 2013
outperformance
versus
Morningstar
categories
**crashes the 3
year number by
nearly -70%**

3 YEAR MORNINGSTAR ROLLOVER

The Overall Morningstar Rating With No Category Changes

An overall star rating for each fund is based on a weighted average (rounded to the nearest integer) of the number of stars assigned to it in the three-, five-, and 10-year rating periods. If the fund in question has been in its current category over the entire evaluation period, the weights are:

Months of Total Returns	Overall (Weighted) Morningstar Rating
36–59	100% three-year rating
60–119	60% five-year rating 40% three-year rating
120 or more	50% 10-year rating 30% five-year rating 20% three-year rating

While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.



The **3 Year** Morningstar number is the **most important** as it is tucked into **all performance durations** including the **3, 5, and 10 year** scores which filter into Morningstar Star ratings

3 YEAR MORNINGSTAR ROLLOVER

Overall Morning Star Rating with **10** Years of Performance

	Weighting In Overall Morningstar Rating	3 Year Weighting in Each Tier	Total Impact From 3 Year Numbers
10 Year	50%	20%	10%
5 Year	30%	40%	12%
3 Year	20%	100%	20%
Total			42%

Overall Morning Star Rating with **5** Years of Performance

	Weighting In Overall Morningstar Rating	3 Year Weighting in Each Tier	Total Impact From 3 Year Numbers
5 Year	60%	40%	24%
3 Year	40%	100%	40%
Total			64%

Overall Morning Star Rating with **3** Years of Performance

	Weighting In Overall Morningstar Rating	3 Year Weighting in Each Tier	Total Impact From 3 Year Numbers
3 Year	100%	100%	100%
Total			100%

MORNINGSTAR
The Morningstar Rating™
Methodology

And thus depending on the **life of the fund**, the 3 year number holds a **42%** weight in funds with 10 year performance; a **64%** weight at 5 year inception; and obviously **100%** for funds with just 36 months of performance

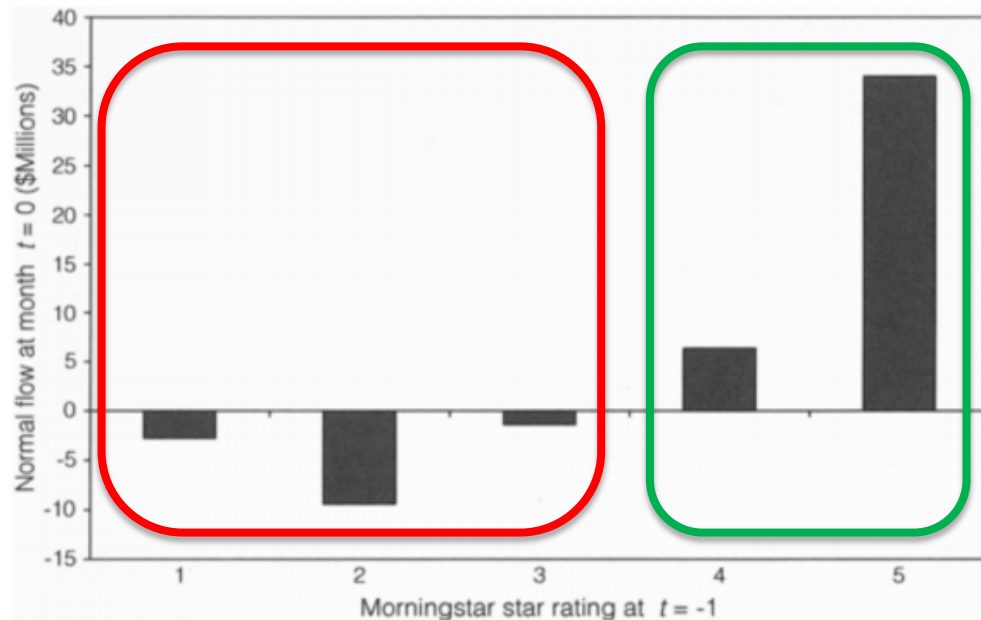
3 YEAR MORNINGSTAR ROLLOVER

918 Journal of Financial and Quantitative Analysis

FIGURE 2

Average Month Zero Normal Flow in Five Morningstar Star Rating Categories

To create this plot, we average month 0 normal flow across all funds by Morningstar star rating in month -1 . Normal flow is based on a benchmark regression, analogous to a market model regression, whereby a fund's monthly flow is regressed on aggregate flow at time t to funds in its same style group, its own time $t-1$ flow, and its own time $t-1$ return, its change in Jensen's alpha from $t-2$ to $t-1$, and its change in Jensen's alpha from $t-2$ to $t-1$ squared. We use all funds



Morningstar ratings for mutual funds matter...as **only 4 and 5 star funds get any inflow** and **decay rates** start with funds that trip into the **3 star and below Morningstar camp**

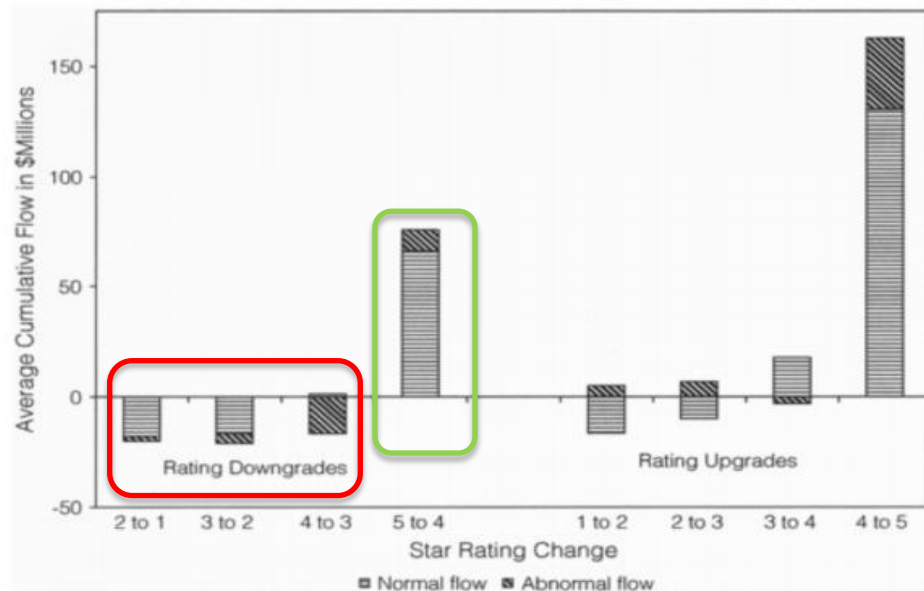
3 YEAR MORNINGSTAR ROLLOVER

922 Journal of Financial and Quantitative Analysis

FIGURE 3

Average Seven-Month Cumulative Abnormal Flow for Morningstar Star Rating Changes

To create this plot, we averaged seven-month (0,6) cumulative abnormal flow and seven-month cumulative normal flow across domestic equity funds within the same star rating change group. Normal flow is based on a benchmark regression, analogous to a market model regression, whereby a fund's monthly flow is regressed on aggregate flow at time t to funds in its same style group, its own time $t - 1$ flow, and its own time $t - 1$ return, its change in Jensen's alpha from $t - 2$ to $t - 1$, and its change in Jensen's alpha from $t - 2$ to $t - 1$ squared. Abnormal flow in month t is the actual dollar flow in month t minus normal flow. Note that unlike the numbers reported in Table 2, this figure contains measures of abnormal flow that are *not* standardized by the forecast variance.



And back to the statistical competence of JFQA –
downgrades from 5 to 4 stars don't really hurt **but downgrades from 4 to 3 stars move from net flows to redemptions.**

3 YEAR MORNINGSTAR ROLLOVER

Fund Name	Excess Return 2013	Excess Return 2016	2013 - 2016 Spread	Current Strategy AUM	Current Morningstar Rating	TTM Organic Growth	Inception Date	Since Inception
T. Rowe Price Growth Stock	5.72	(2.68)	-8.40	\$ 36,276,088,791	4	-4,501,979,110	4/11/1950	120
T. Rowe Price New Income	(0.24)	0.01	0.25	\$ 28,667,105,863	3	920,271,943	8/31/1973	120
T. Rowe Price Equity Index 500	(1.09)	(0.17)	0.92	\$ 26,056,459,747	4	-736,587,195	3/30/1990	120
T. Rowe Price Blue Chip Growth	8.09	(2.98)	-11.07	\$ 25,746,133,589	4	-1,654,331,476	6/30/1993	120
T. Rowe Price Capital Appreciation	8.12	1.69	-6.43	\$ 23,842,578,778	5	-571,060,706	6/30/1986	120
T. Rowe Price Value	4.78	(3.13)	-7.91	\$ 21,005,088,618	4	-1,814,537,956	9/30/1994	120
T. Rowe Price Mid-Cap Growth	1.15	(0.51)	-1.66	\$ 20,973,409,687	5	-2,987,123,678	6/30/1992	120
T. Rowe Price Retirement 2020	5.07	(0.38)	-5.45	\$ 20,387,280,447	5	-316,870,658	9/30/2002	120
T. Rowe Price Retirement 2030	3.46	(0.81)	-4.27	\$ 20,196,185,859	5	553,909,244	9/30/2002	120
T. Rowe Price Equity Income	(2.78)	1.78	4.56	\$ 17,553,888,668	3	-7,605,411,035	10/31/1985	120
T. Rowe Price Retirement 2025	4.50	(0.58)	-5.08	\$ 16,870,070,100	5	813,420,366	2/27/2004	120
T. Rowe Price New Horizons	5.81	2.45	-3.36	\$ 14,412,550,967	5	-1,609,425,323	6/3/1960	120
T. Rowe Price Retirement 2040	2.87	(1.35)	-4.22	\$ 13,701,977,532	5	521,128,314	9/30/2002	120
T. Rowe Price Retirement 2035	2.83	(1.10)	-3.93	\$ 12,399,251,497	5	896,317,895	2/27/2004	120
T. Rowe Price Instl Large Cap Growth	10.95	(2.78)	-13.73	\$ 12,270,380,437	4	-863,976,519	10/31/2001	120
T. Rowe Price International Stock	(1.21)	1.40	2.61	\$ 12,142,221,673	3	-1,570,995,620	5/9/1980	120
T. Rowe Price International Gr & Inc	7.93	(5.57)	-13.50	\$ 10,787,158,153	3	-379,745,798	12/21/1998	120
T. Rowe Price Overseas Stock	6.46	(2.72)	-9.18	\$ 10,735,604,206	4	107,527,278	12/29/2006	120
T. Rowe Price Mid-Cap Value	(1.92)	2.52	4.44	\$ 10,501,765,931	5	-1,165,678,085	6/28/1996	120
T. Rowe Price Health Sciences	9.20	(8.17)	-17.37	\$ 10,016,496,883	5	-2,678,152,236	12/29/1995	120
T. Rowe Price Retirement 2015	4.68	(0.08)	-4.76	\$ 8,267,518,986	5	-650,778,754	2/27/2004	120
T. Rowe Price Small-Cap Stock	(5.65)	4.91	10.56	\$ 7,974,160,943	4	-741,783,211	6/1/1956	120
T. Rowe Price High Yield	1.65	(2.86)	-4.51	\$ 7,694,897,665	4	-1,556,440,941	12/31/1984	120
T. Rowe Price Emerging Markets Stock	(2.09)	2.71	4.80	\$ 7,448,283,600	4	-2,451,124,036	3/31/1995	120
T. Rowe Price Retirement 2045	2.87	(1.39)	-4.26	\$ 7,359,778,743	5	769,317,018	5/31/2005	120
T. Rowe Price Small-Cap Value	(6.08)	4.75	10.83	\$ 7,216,457,410	4	-328,157,634	6/30/1988	120
T. Rowe Price Ltd Dur Infl Focus Bd	7.08	(4.07)	-11.15	\$ 7,196,731,073	2	54,805,996	9/29/2006	120

The exercise then becomes looking at the **top 50 TROW funds** and the ones with the **biggest '13 versus '16 negative spreads**. We then focused on the **4 star** funds with risk of tripping into **3 star**

3 YEAR MORNINGSTAR ROLLOVER

Fund Name	Excess Return 2013	Excess Return 2016	2013 - 2016 Spread	Current Strategy AUM	Current Morningstar Rating	TTM Organic Growth	Inception Date	Since Inception
T. Rowe Price Growth Stock	5.72	(2.68)	-8.40	\$ 36,276,088,791	4	-4,501,979,110	4/11/1950	120
T. Rowe Price Blue Chip Growth	8.09	(2.98)	-11.07	\$ 25,746,133,589	4	-1,654,331,476	6/30/1993	120
T. Rowe Price Value	4.78	(3.13)	-7.91	\$ 21,005,088,618	4	-1,814,537,956	9/30/1994	120
T. Rowe Price Instl Large Cap Growth	10.95	(2.78)	-13.73	\$ 12,270,380,437	4	-863,976,519	10/31/2001	120
T. Rowe Price Overseas Stock	6.46	(2.72)	-9.18	\$ 10,735,604,206	4	107,527,278	12/29/2006	120
T. Rowe Price High Yield	1.65	(2.86)	-4.51	\$ 7,694,897,665	4	-1,556,440,941	12/31/1984	120
T. Rowe Price Ltd Dur Infl Focus Bd	7.08	(4.07)	-11.15	\$ 7,196,731,073	2	54,805,996	9/29/2006	120
T. Rowe Price Balanced	4.94	(0.09)	-5.03	\$ 3,562,462,309	4	-628,452,567	12/29/1939	120
T. Rowe Price New America Growth	4.24	(2.60)	-6.84	\$ 3,171,811,790	4	-758,998,822	9/30/1985	120
T. Rowe Price Retirement 2030 Adv	3.06	(0.98)	-4.04	\$ 3,155,895,358	4	-312,129,238	10/31/2003	120
T. Rowe Price Retirement 2020 Adv	4.77	(0.55)	-5.32	\$ 2,978,690,534	4	-400,172,829	10/31/2003	120
T. Rowe Price Blue Chip Growth Adv	7.72	(3.19)	-10.91	\$ 2,924,698,930	4	154,928,802	3/31/2000	120
T. Rowe Price Retirement 2040 Adv	2.56	(1.57)	-4.13	\$ 2,408,625,394	4	-231,415,339	10/31/2003	120
T. Rowe Price Instl Large Cap Core Gr	7.96	(2.86)	-10.82	\$ 2,267,677,279	4	231,349,927	9/30/2003	120
T. Rowe Price Retirement 2030 R	2.76	(1.21)	-3.97	\$ 2,114,990,423	4	-190,957,499	10/31/2003	120
T. Rowe Price Tax-Free Income Inv	1.01	(0.69)	-1.70	\$ 2,045,408,794	4	134,993,524	10/26/1976	120
16 Total Funds	Avg. 2013 Excess 5.23	Avg. 2016 Excess (2.19)	Avg. Spread (7.42)	Total AUM \$ 145,555,185,190			Avg. Inception	120

BIGGEST FUNDS AT RISK?

We identified **16** funds with an average of **-742** basis points of 2013 to 2016 excess performance differential that total **\$145 billion**. Almost all are 4 star funds. A **3 star** fund rating could really hurt.

3 YEAR MORNINGSTAR ROLLOVER

Name	4 Star Period	4 Star Periods		
		4 Star Flow	Beginning AUM	4 Star Organic Growth
T. Rowe Price Equity Income	July 2010 to June 2011	1,377,756,146	15,923,161,257	9%
T. Rowe Price Emerging Markets Stock	June 2007 to May 2008	1,461,858,866	3,437,179,939	43%
T. Rowe Price Small-Cap Value	Dec 2012 to Nov 2013	-234,247,522	6,743,536,499	-3%
Total		2,605,367,489	26,103,877,695	10%

	3 Star Period	3 Star Periods		
		3 Star Flow	Beginning AUM	3 Star Organic Growth
T. Rowe Price Equity Income	July 2011 to August 2012	-271,183,983	19,685,859,588	-1%
T. Rowe Price Emerging Markets Stock	June 2008 - May 2009	322,613,857	5,014,807,013	6%
T. Rowe Price Small-Cap Value	Dec 2013 to Nov 2014	-568,603,698	8,667,519,587	-7%
Total		-517,173,824	33,368,186,188	-2%

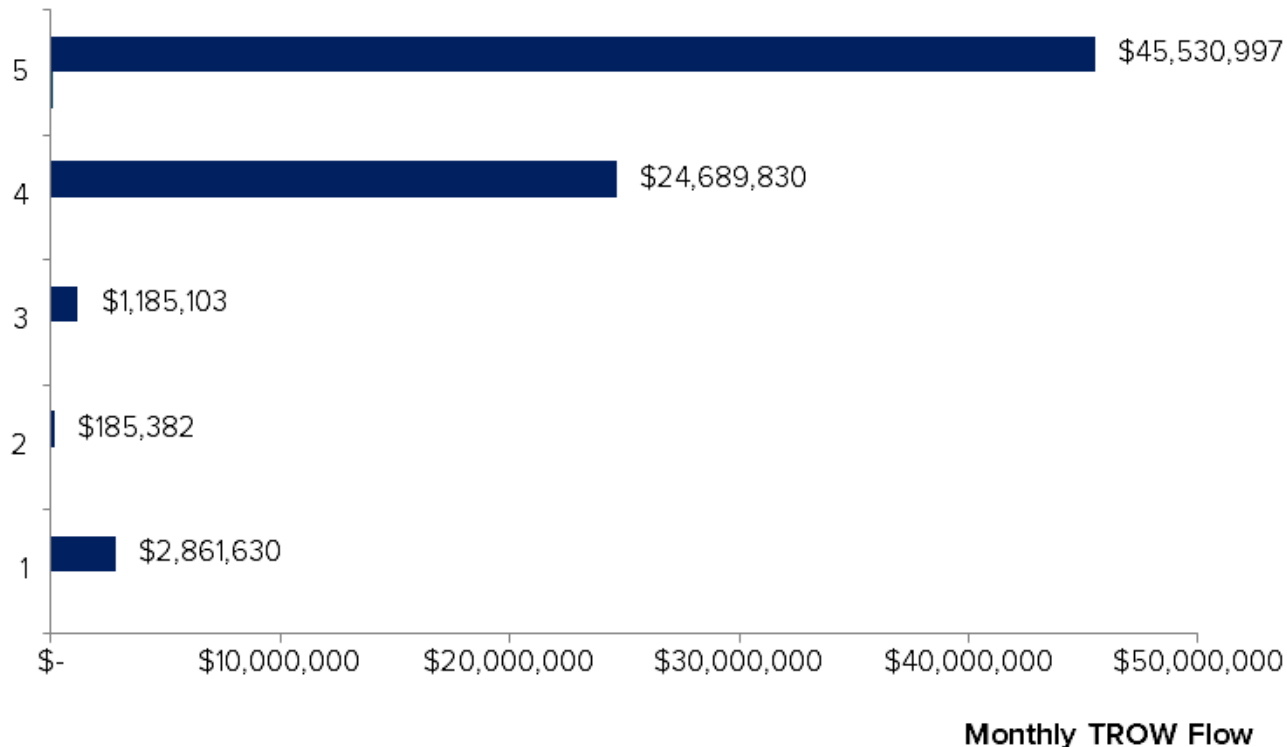
ONLY A FEW EXAMPLES WITHIN THE TROW FRANCHISE

There are only a **few examples** of 4 to 3 star moves with the exemplary historical performance and 3 windows for 3 funds stand out. When these funds moved from **4 to 3 star** rating organic growth went from **+10%** to **-2%**

3 YEAR MORNINGSTAR ROLLOVER

Monthly TROW Mutual Fund Flows By MSN Rating

MorningStar Rating

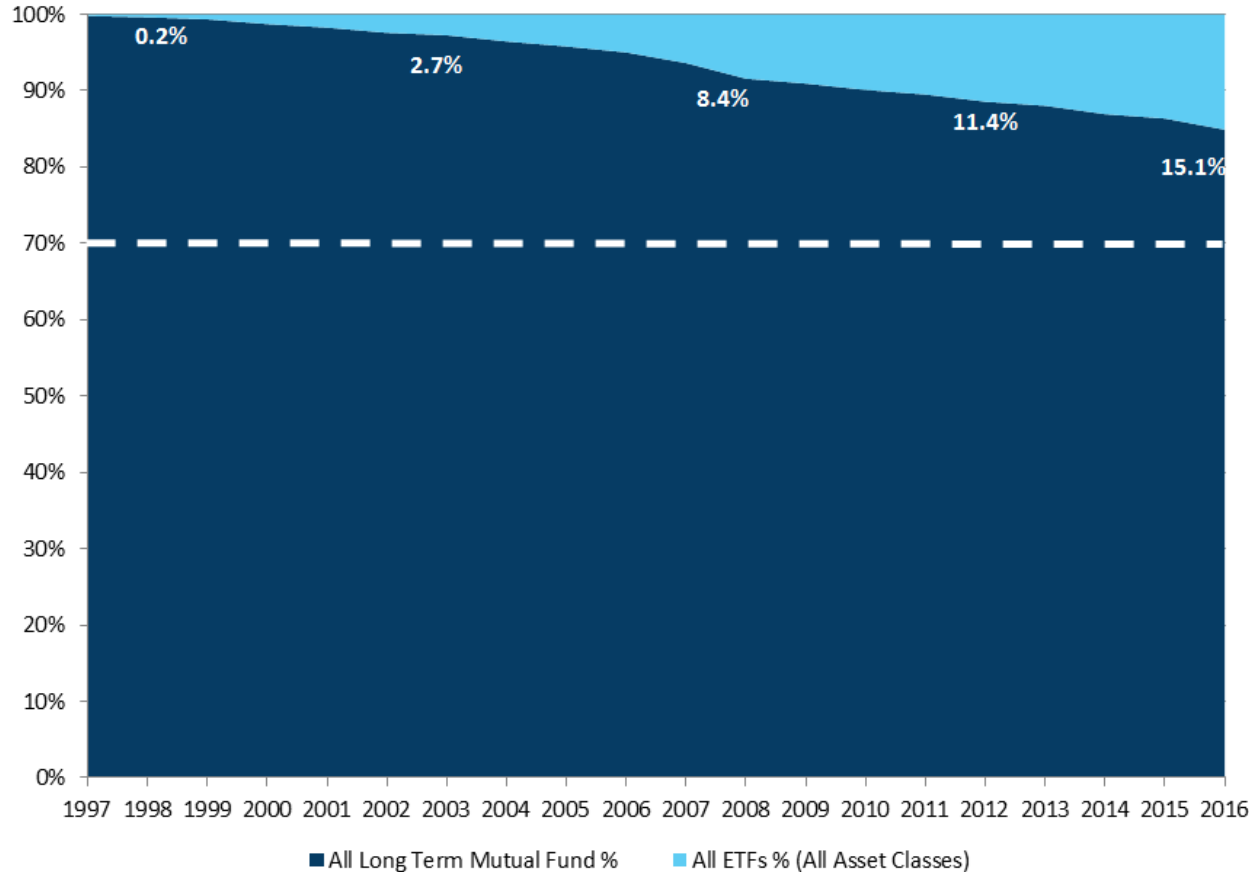


And looking at **all TROW funds on a monthly basis** from all Morningstar data available displays the **importance of 4 and 5 star rankings and the pivot point of 3 stars and below.**

THE ASTEROID CONTINUES

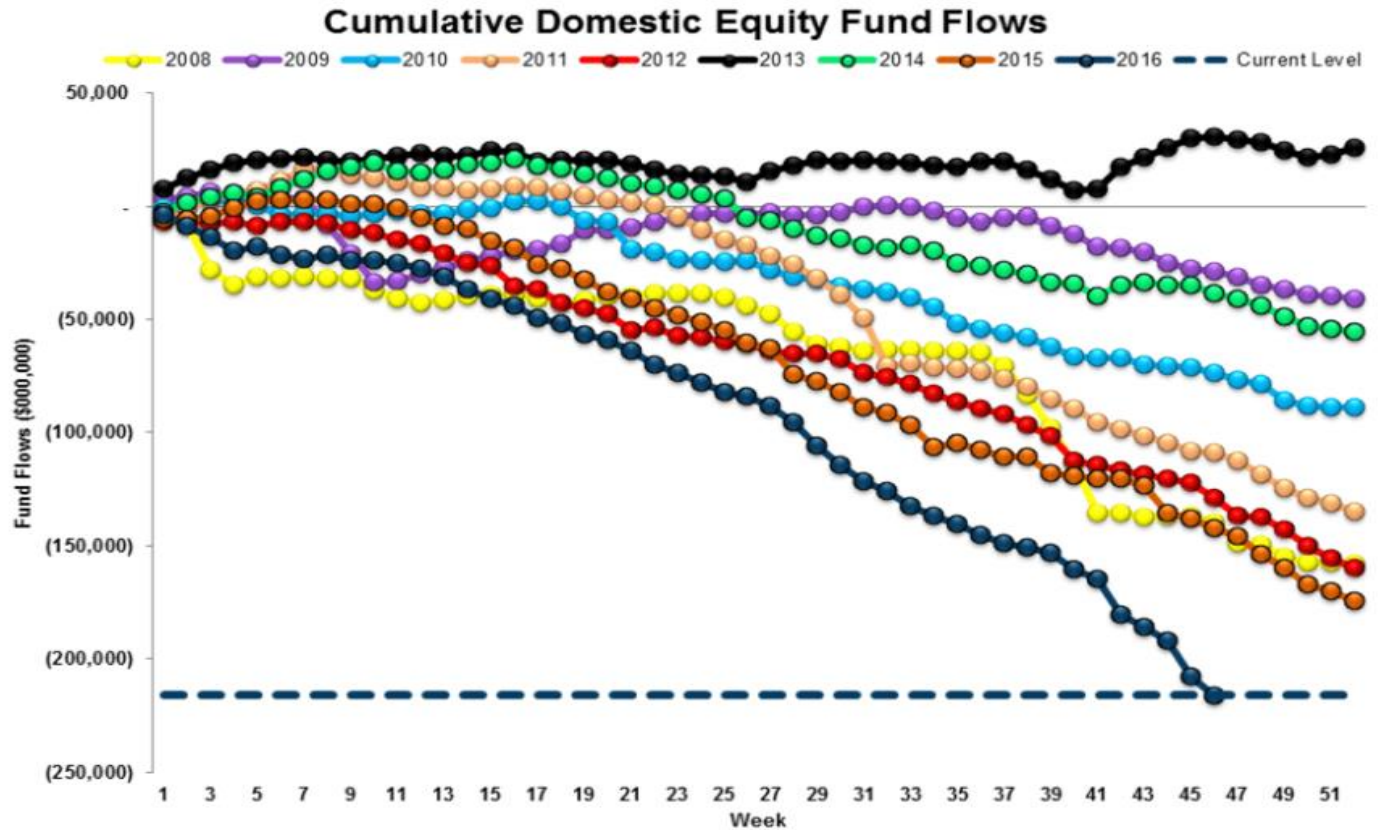


ETFs – MORE ROOM TO DISRUPT



While ETFs seem to be the most **trite** acronym in finance their **penetration rate is still just 15.1%** against the antiquated **mutual fund vehicle which holds ~84%** of long term assets.

ETFs – MORE ROOM TO DISRUPT



The pace of redemptions in US active funds has quickened with **2016** again trending to a **new biggest annual redemption** on record.

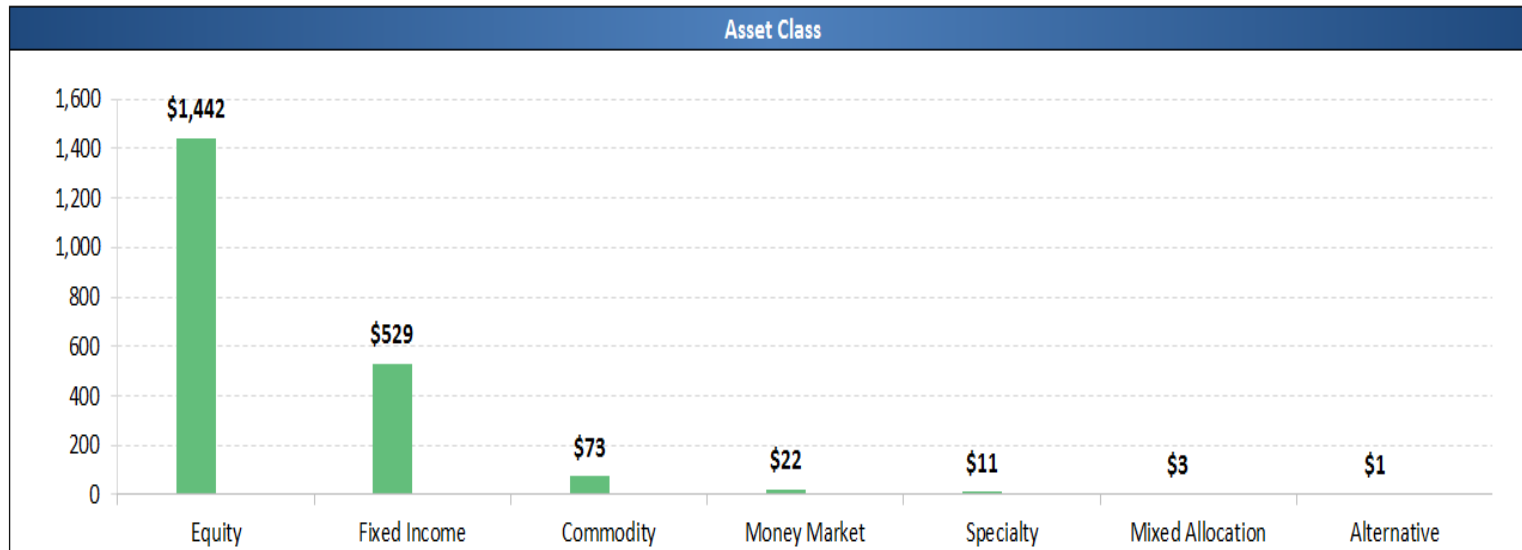
ETFs – MORE ROOM TO DISRUPT

Report Title:	Asset Class
Setting Detail:	Universe = Universe breakdown by Asset Class
Period Detail:	Report (USD) from 01-Jan-2007 to 20-Nov-2016 on Daily

In Flow	9711.59
Out Flow	-7630.19
Net Flow	2081.40

# Funds	779
AUM	816.28
% of Univ.	100.00%

Breakdown Top 10 Figures (by Asset Class)	
Asset Class	Flow (Bln)
Equity	\$ 1,442
Fixed Income	\$ 529
Commodity	\$ 73
Money Market	\$ 22
Specialty	\$ 11
Mixed Allocation	\$ 3
Alternative	\$ 1



EQUITY MANAGERS ARE IN THE CROSS HAIRS

Of the just over **\$2.0 Trillion** that has flowed into passives since 2007, **\$1.4 Trillion** or over **69%** as been to equity products

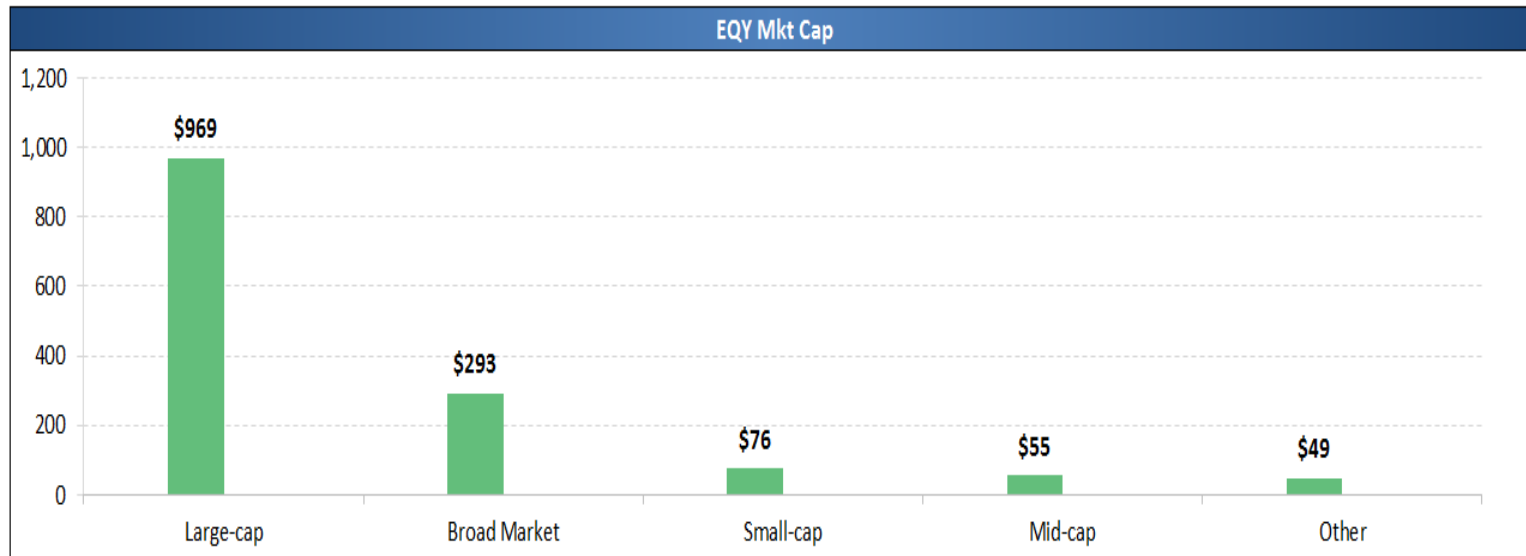
ETFs – MORE ROOM TO DISRUPT

Report Title:	EQY Mkt Cap
Setting Detail:	Asset Class = Equity breakdown by Market Cap
Period Detail:	Report (USD) from 01-Jan-2007 to 20-Nov-2016 on Daily

In Flow	7859.77
Out Flow	-6418.10
Net Flow	1441.68

# Funds	523
AUM	731.27
% of Univ.	89.58%

Breakdown Top 10 Figures (by Market Cap)	
Market Cap	Flow (Bln)
Large-cap	\$ 969
Broad Market	\$ 293
Small-cap	\$ 76
Mid-cap	\$ 55
Other	\$ 49



WITHIN EQUITIES, LARGE CAP HAS BEEN THE STYLE BOX LOSER

And within that \$1.4 trillion subscription, **2/3rd** or almost **\$1 Trillion** has been within Large Cap strategies as alpha still lives in small and mid cap stocks and is less passive-ized.

ETFs – MORE ROOM TO DISRUPT

	<i>Total Mutual Fund Assets</i>	<i>Total Large Cap Mutual Fund Strategies</i>	<i>Total Large Cap Exposure</i>
T. Rowe Price	666,934,904,627	184,327,472,808	27.6%
Janus	111,881,809,653	29,241,846,276	26.1%
Invesco	234,794,158,008	62,466,661,203	26.6%
Legg Mason	176,812,512,246	32,913,704,385	18.6%
Franklin Templeton	571,697,851,308	41,172,009,408	7.2%
BlackRock	539,618,076,771	39,652,654,265	7.3%
Total	2,301,739,312,614	389,774,348,345	16.9%

Of the big six public asset managers, **TROW** has the **biggest percentage of Large Cap Strategies** within all its mutual funds at **~28%**. The average of **All Morningstar Funds in Large Cap** is just **17%**.

ETFs – MORE ROOM TO DISRUPT

Closed TROW Funds to New Investors		
	<u>Dated Closed</u>	<u>AUM (\$MM)</u>
Institutional Mid Cap Growth	12/8/2003	\$ 1,342
Mid Cap Growth	5/31/2010	\$ 23,868
Mid Cap Value	5/31/2010	\$ 11,659
High Yield Fund	4/27/2013	\$ 10,058
Institutional High Yield Fund	4/27/2013	\$ 11,012
Institutional Small Cap Stock Fund	12/31/2013	\$ 580
New Horizons Fund	12/31/2013	\$ 17,428
Small Cap Stock Fund	12/31/2013	\$ 10,770
Capital Appreciation	6/30/2014	\$ 20,187
Institutional Capital Appreciation	6/30/2014	\$ 986
Health Sciences Fund	6/1/2015	\$ 15,510
Total Closed TROW Strategies in \$MM		\$ 107,890

Total TROW Mutual Funds (Equity & Fixed Income & Money Fund) \$ 517,000

% of Closed Funds of Total TROW Mutual Funds	21%
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REOPENED

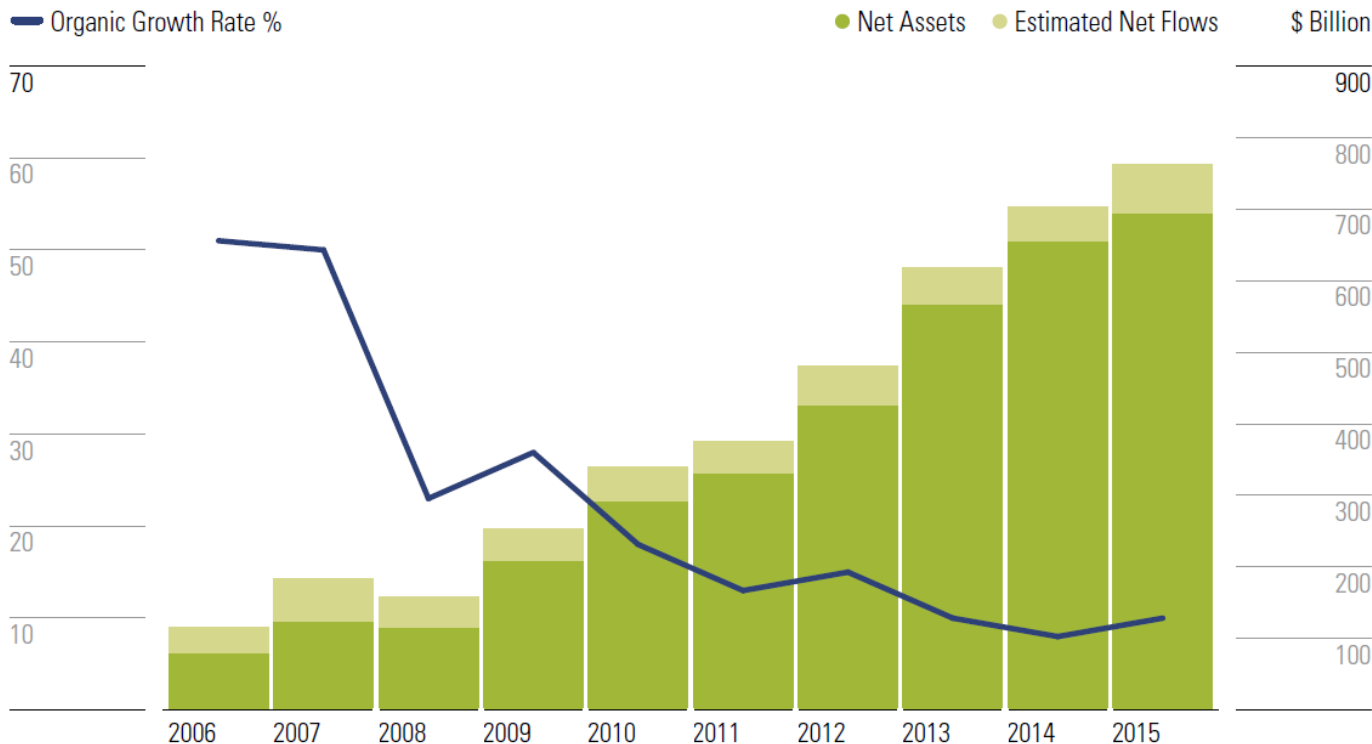
The entire shift to ETFs from mutual funds is more problematic for TROW as it **has closed 21% of its fund franchise** to new investors with **\$107 billion shut off** to protect performance and for target date use

TARGET DATE NO BULLSEYE ANYMORE



TARGET DATE HAS CROSSED \$700 B

Exhibit 1 Net Assets, Estimated Net Flow, and Organic Growth Rates of U.S. Target-Date Mutual Funds, 2006-15



Source: Morningstar, Inc. Data as of 12/31/2015.

DATA SOURCE: MORNINGSTAR

Total Target Date AUM is crossing **\$800 billion**. Organic growth which was break away at well over **30% before 2008** has now slowed under double digits to just **+8%** as of last count.

A 3 HORSE RACE IN TD FUNDS

Exhibit 5 2015 Firm Market Share of Target-Date Mutual Funds



Fund Family	% of Market
Vanguard	29.5
Fidelity Investments	23.8
T. Rowe Price	17.3
JPMorgan	4.9
American Funds	4.6
Principal Funds	3.4
TIAA-CREF	3.3
Other	13.2

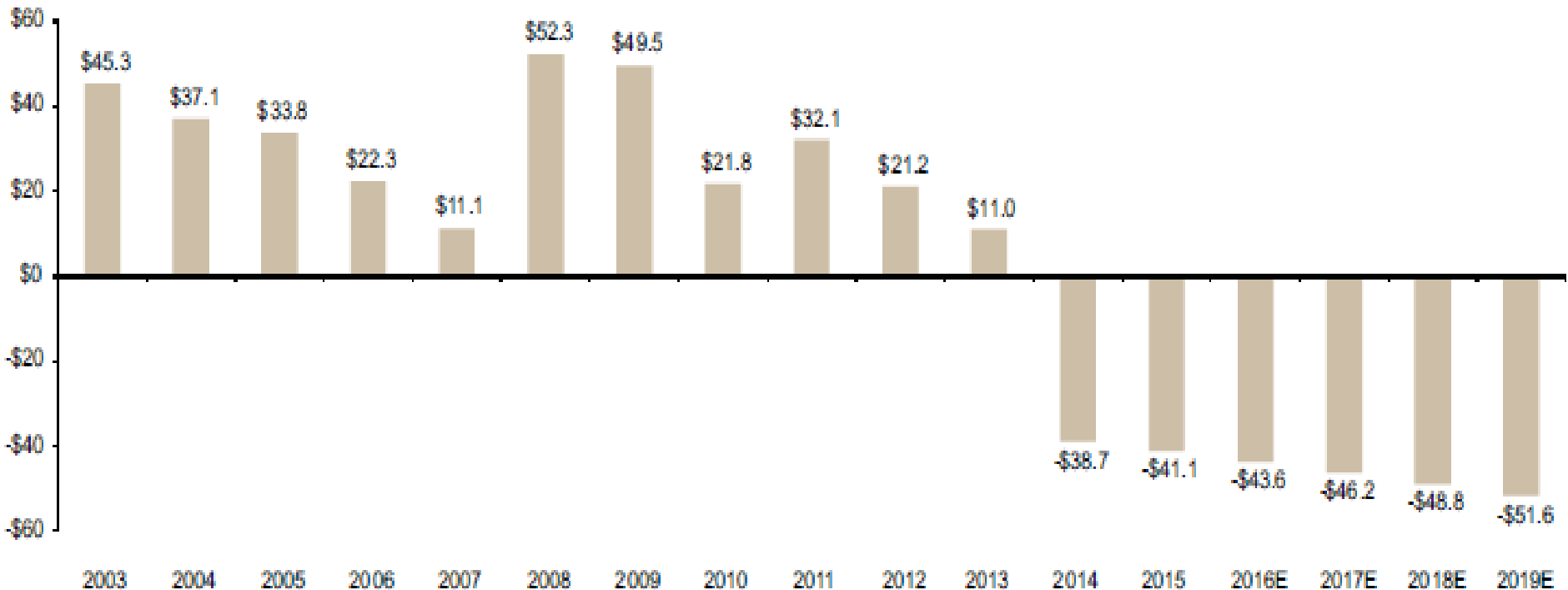
The **low cost** providers **Vanguard** and **Fidelity** are at the top of the table with **TROW** a solid **third** with **17%** share. No other firm has more than **5%** market share.

Source: Morningstar, Inc. Data as of 12/31/2015.

BUT OVERALL DC IS NOW IN OUTFLOW

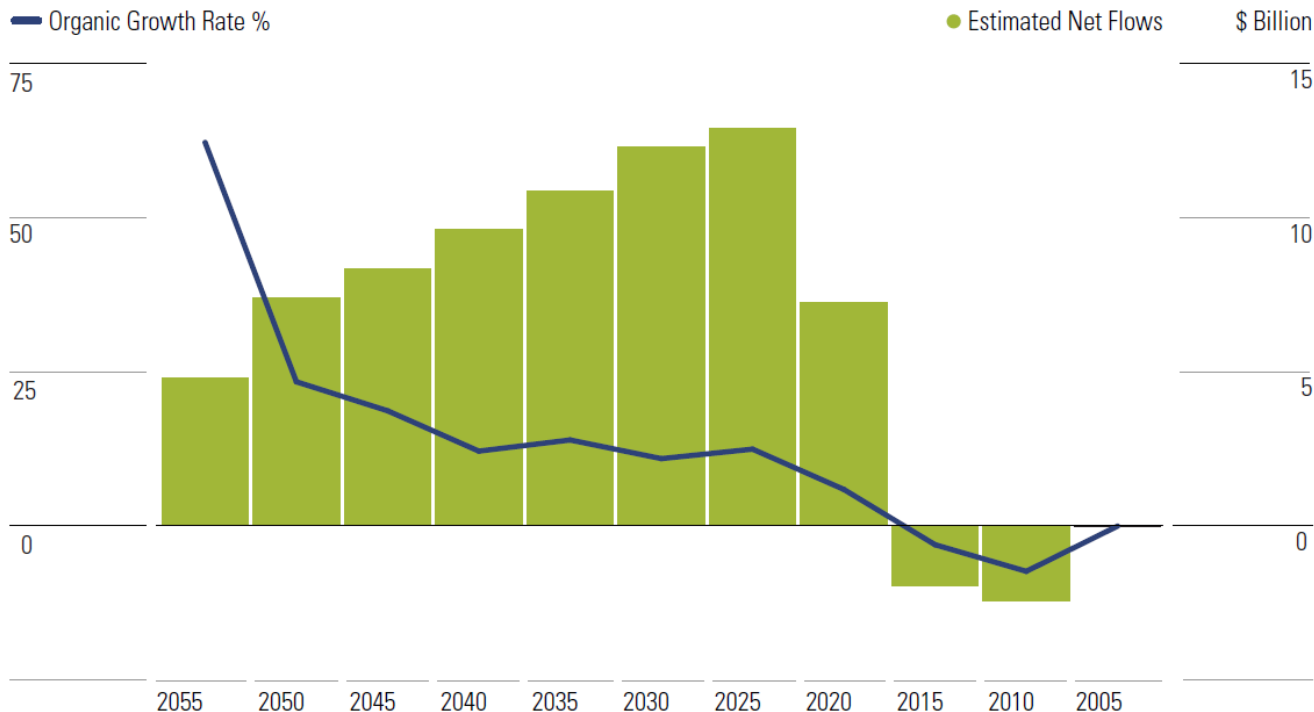
401(k) Net Flows, 2003–2019E (\$ billions)

Sources: Department of Labor, Cerulli Associates



TARGET DATE STARTING RUN OFF

Exhibit 4 2015 Estimated Net Flows and Organic Growth Rate by Target-Date Category

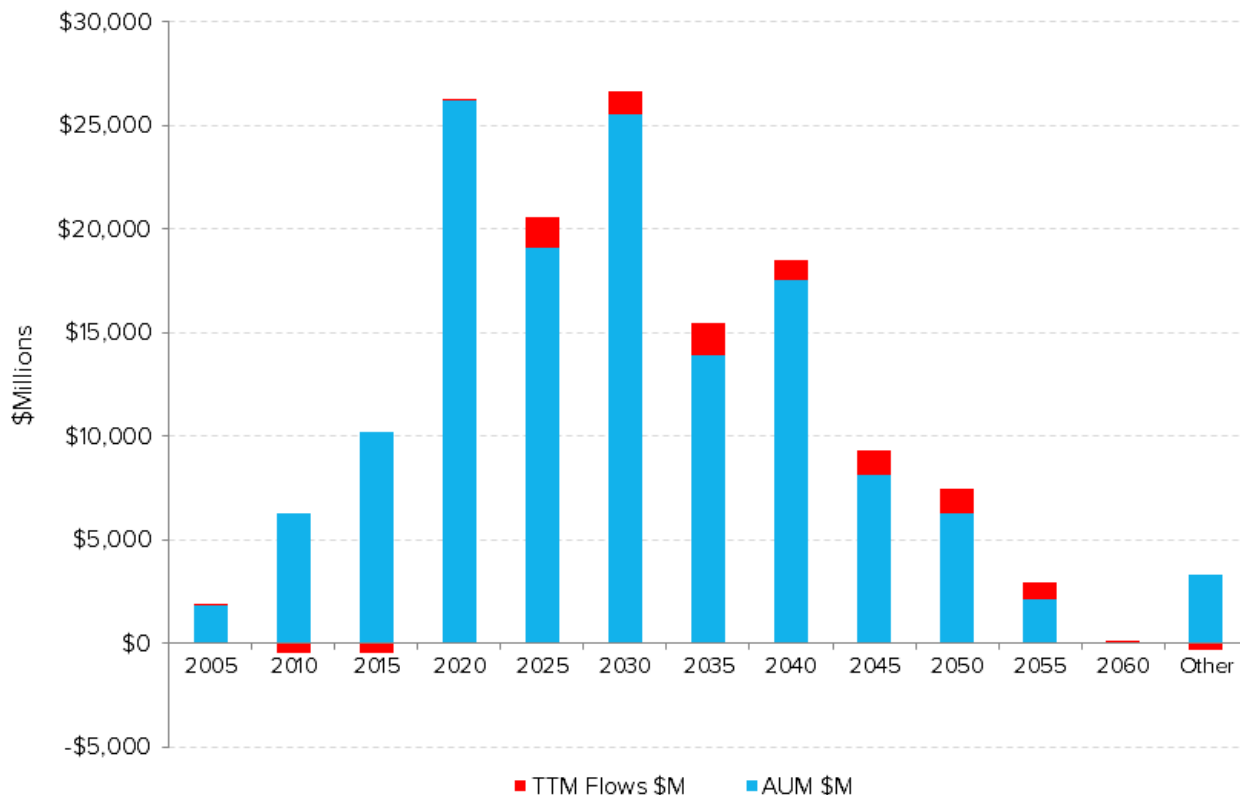


Source: Morningstar, Inc. Data as of 12/31/2015.

And the oldest members of the baby boomers turned **65** in **2011** which has started a **run off** in the formerly **growth only** target date fund industry.

TARGET DATE STARTING RUN OFF

TROW Target Date Series AUM and Organic Growth



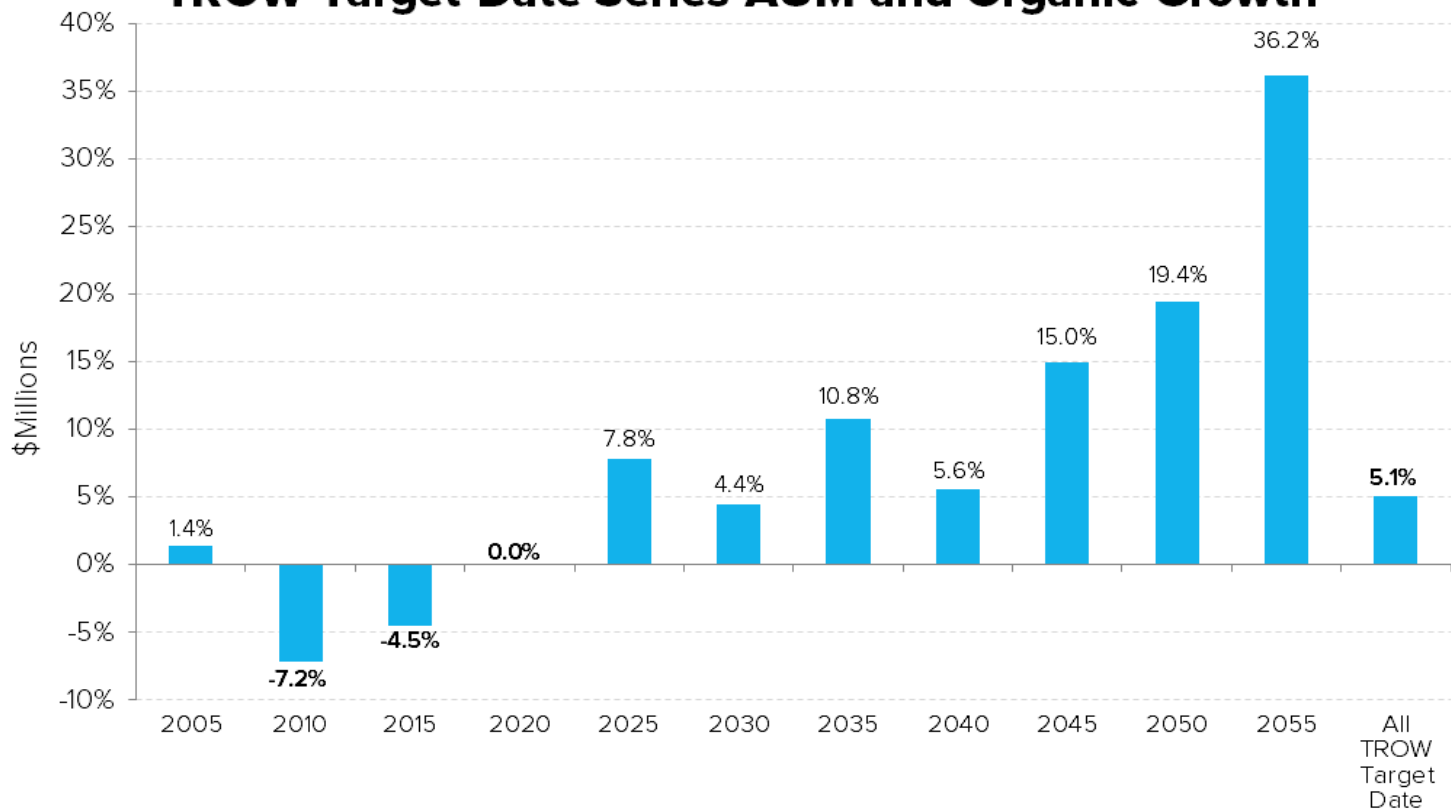
Which is showing up in TROW's franchise as well as most **older** series from the **2015 vintage backwards** showing **decay** now and the large 2020 fund with **no** new organic growth

Source: Morningstar Direct

©2016 HEDGEYE RISK MANAGEMENT

TARGET DATE STARTING RUN OFF

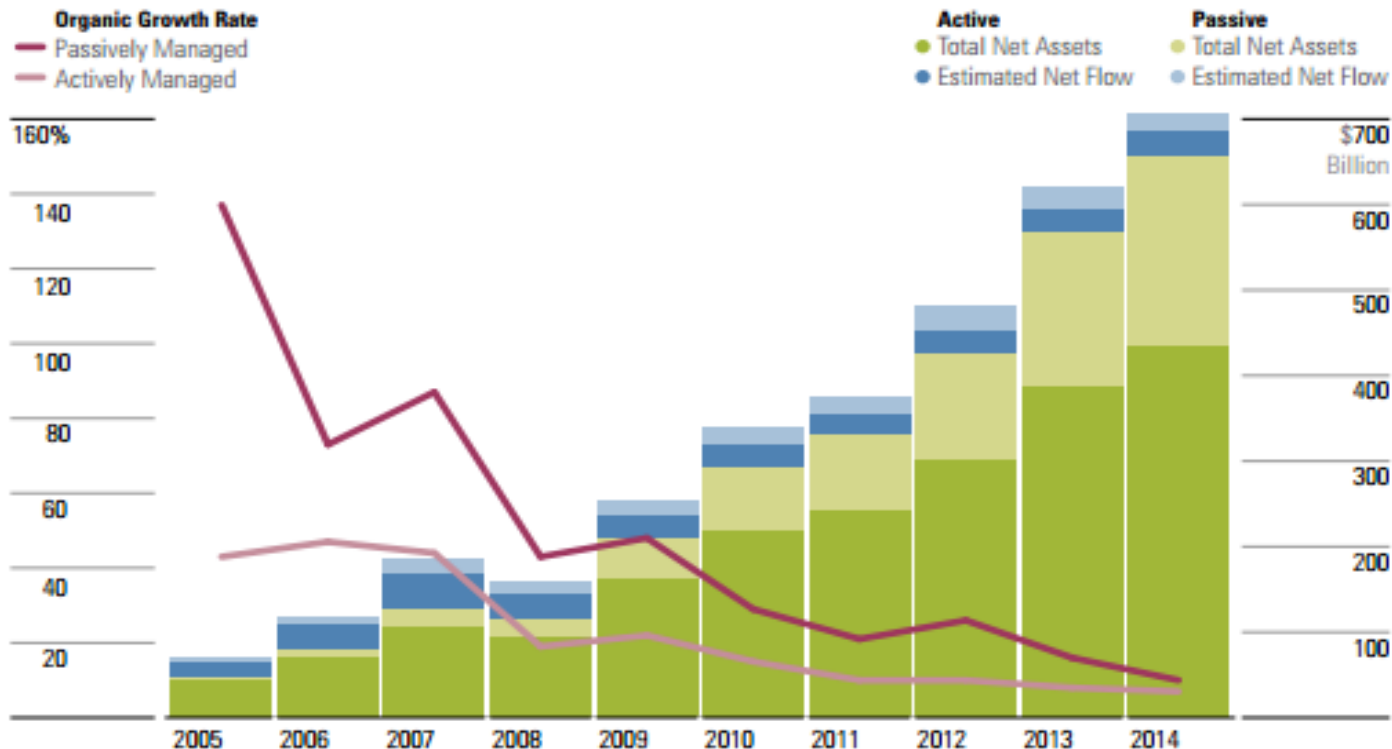
TROW Target Date Series AUM and Organic Growth



This puts organic growth at between **zero and negative seven percent** for the 2010, 2015, and 2020 vintages with the overall franchise now right at mid single digits at **+5.1%**

PASSIVES GAINING IN TD USAGE

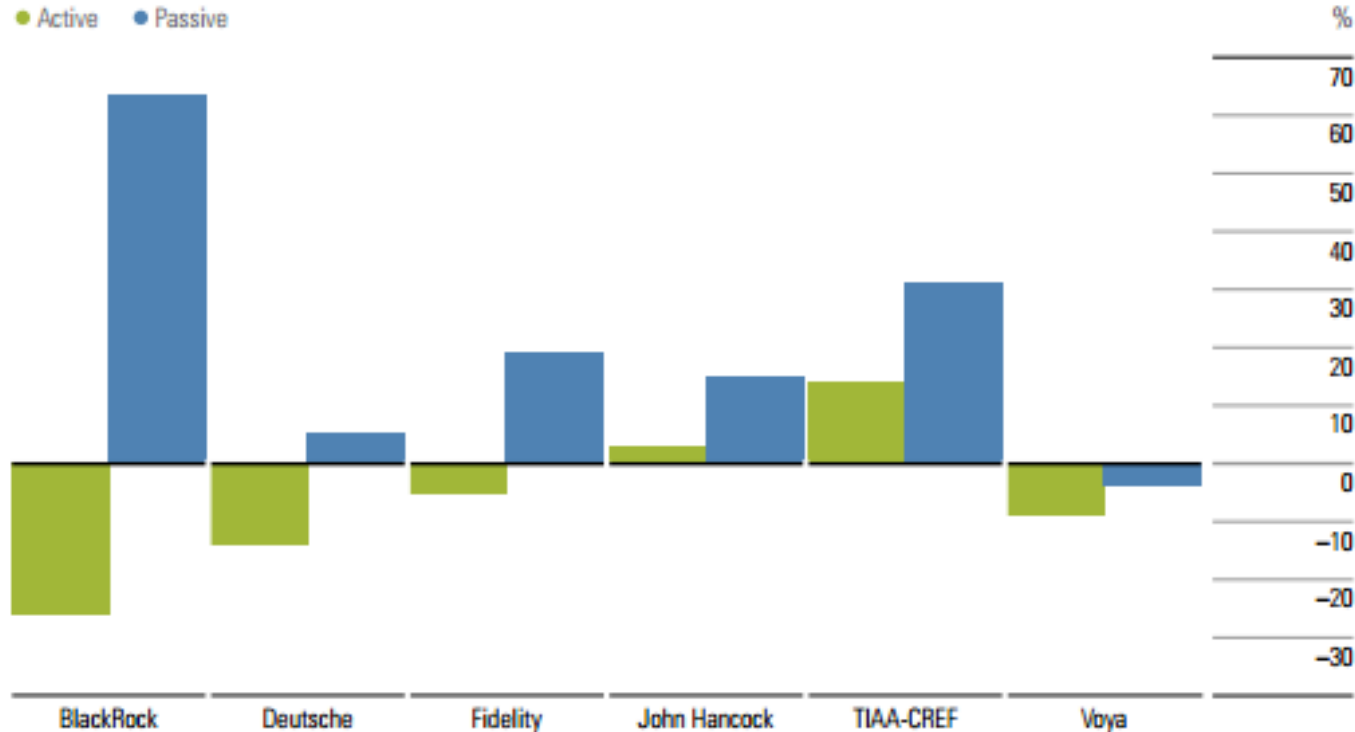
Exhibit 4 Net Assets, Net Flows, and Organic Growth Rate by Active and Passive Assets



In 2005 actively managed target date was **90%** of total TD assets. However of latest count they are only **67%** with passive TD funds using ETFs now **33%**. Furthermore new fund flow is now **50/50**.

PASSIVES GAINING IN TD USAGE

Exhibit 5 Organic Growth Rate by Fund Companies' Passive and Active Target-Date Funds



Of the manufacturers that produce **both** active and passive TD funds, **Active products** are mainly in **decay** with TD funds that rotate with **passive** index funds **growing** AUM

PASSIVES GAINING IN TD USAGE

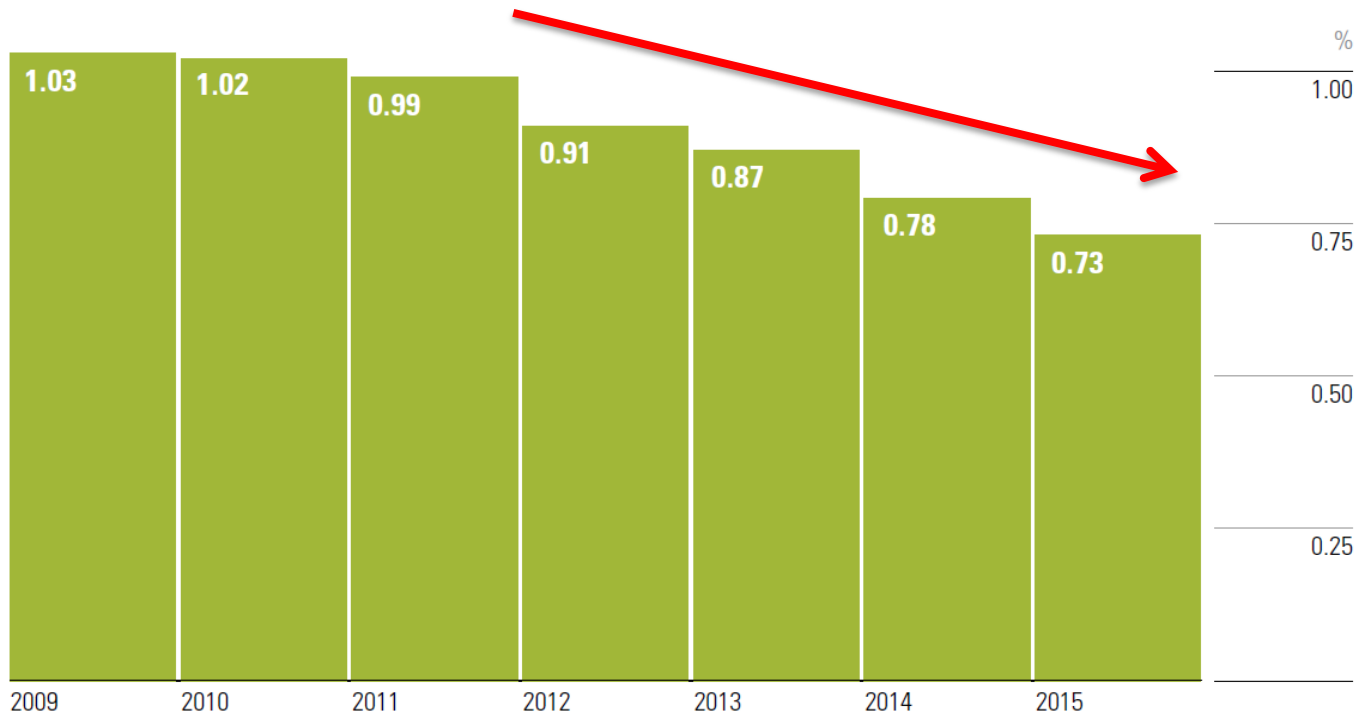
Exhibit 6 Net Assets, Net Flows, and Organic Growth Rate by Fund Companies' Passive and Active Target-Date Funds

Fund Company	Net Assets \$ Mil		Estimated Net Flow \$ Mil		Organic Growth Rate %	
	Active	Passive	Active	Passive	Active	Passive
BlackRock	3,063.0	4,077.3	-1,031.0	1,546.7	-26.3	63.4
Deutsche	384.5	115.2	-60.7	5.7	-14.1	5.4
Fidelity	175,190.9	11,956.0	-9,591.8	1,822.7	-5.5	19.1
John Hancock	8,170.8	6,825.1	229.9	840.9	3.0	14.8
TIAA-CREF	18,448.5	3,705.4	2,216.4	832.8	14.3	31.0
Voya	4,247.0	1,664.5	-397.1	-62.9	-8.9	-3.8

From an **asset weighted perspective** organic growth in active TD usage is **-3.8%** versus the solid **growth** of passives in TD usage with organic growth of **+20.1%**

FINANCIAL SERVICES DEFLATION

Exhibit 41 Average of Industry's Asset-Weighted Expense Ratio, 2009-15



Source: Morningstar, Inc. Data as of 12/31/2015.

Target Date fund pricing was **stable** up until **2010** but is now succumbing to normal Financial Services deflation. Pricing has now dropped **precipitously** since **2011**

LOW COST PROVIDERS ARE STABLE

Target-Date Series	2014 Wt Avg Expense Ratio %	2013 Wt Avg Expense Ratio %	2014 to 2013 Change	2014 Market Share %	Actively Managed %	Fee Level Percentile Rank
Fidelity Freedom Index Series	0.16	0.16	0.00	1.70	4.90	1.0
TIAA-CREF Lifecycle Index Series	0.21	0.21	0.00	0.51	1.75	2.1
Vanguard Target Retirement Series	0.17	0.17	0.00	27.19	0.00	2.3
State Street Target Retirement Series	0.27	N/A	—	0.00	N/A	2.5
BlackRock LifePath Index Series	0.23	0.24	-0.01	0.58	0.24	4.0
PIMCO RealPath Blend Series	0.29	N/A	—	0.00	N/A	5.6
John Hancock Retirement Living II	0.76	0.87	-0.11	0.02	57.19	6.0
Fidelity Freedom K Series	0.61	0.63	-0.02	12.83	96.48	12.8
TIAA-CREF Lifecycle Series	0.54	0.56	-0.02	2.64	100.00	13.0
American Funds Trgt Date Rtrmt Series	0.84	0.93	-0.09	3.92	100.00	17.2
KP Retirement Path Series	0.48	N/A	—	0.58	92.89	19.4
Principal Lifetime Hybrid Series	0.48	N/A	—	0.00	35.45	20.0
Voya Index Solution Series	0.87	0.88	-0.01	0.24	0.00	21.4
T. Rowe Price Target Retire Series	0.70	0.68	0.02	0.06	87.87	26.1
John Hancock Retirement Choices Series	0.71	0.69	0.02	0.97	50.89	27.6

The low cost providers that utilize **passive** products have **stable** pricing versus the **active** providers which are adjusting pricing **downward**. There is a **vast 40 bps** difference in active v. passive pricing

INSIDE BASEBALL



PHASE TRANSITION SINCE '10

TROW Annual Organic Growth

2001	0.6%
2002	3.2%
2003	9.5%
2004	10.9%
2005	6.9%
2006	10.3%
2007	10.1%
2008	4.3%
2009	7.9%
2010	7.8%

Avg. 7.1%

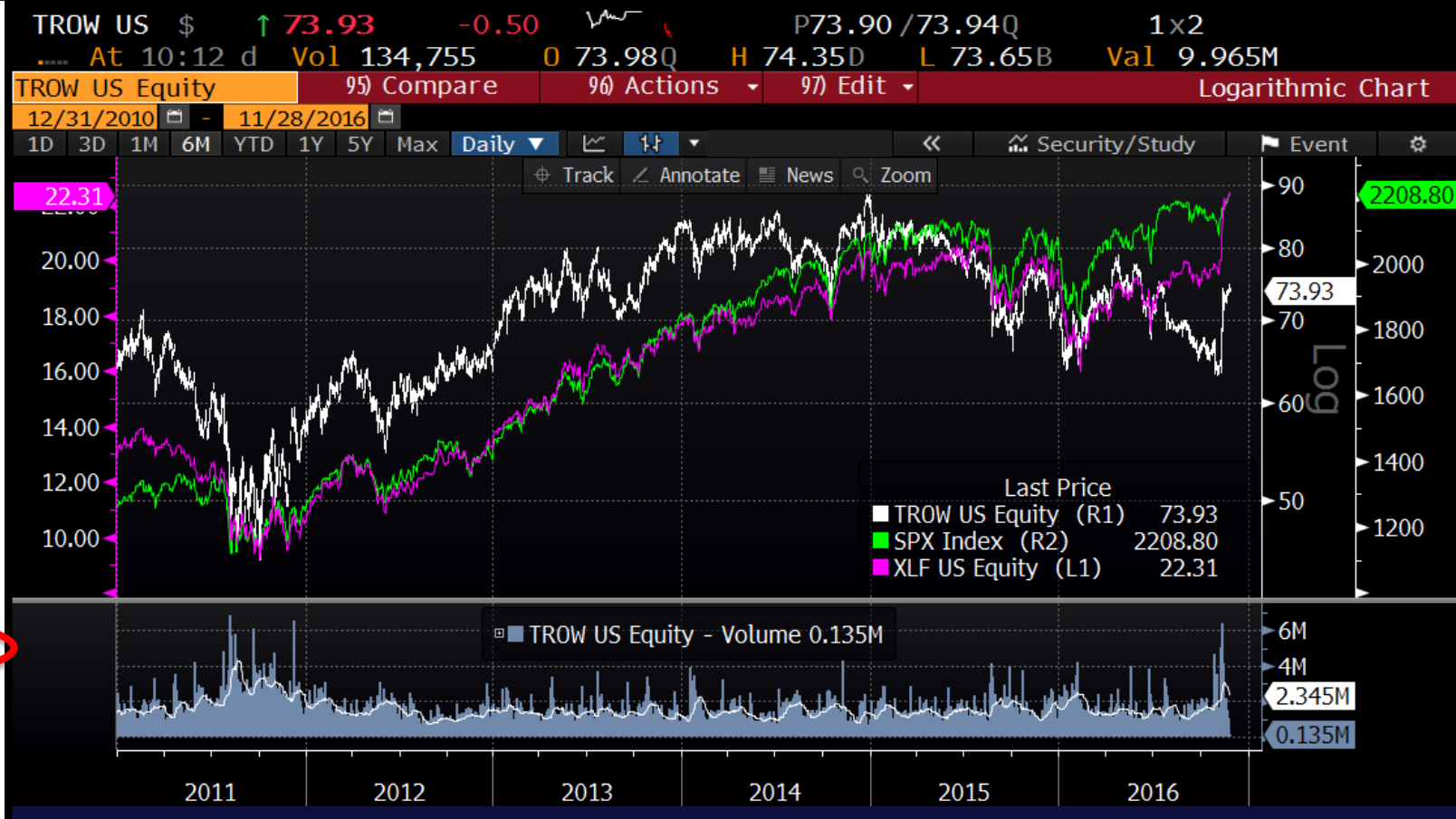


PHASE TRANSITION SINCE '10

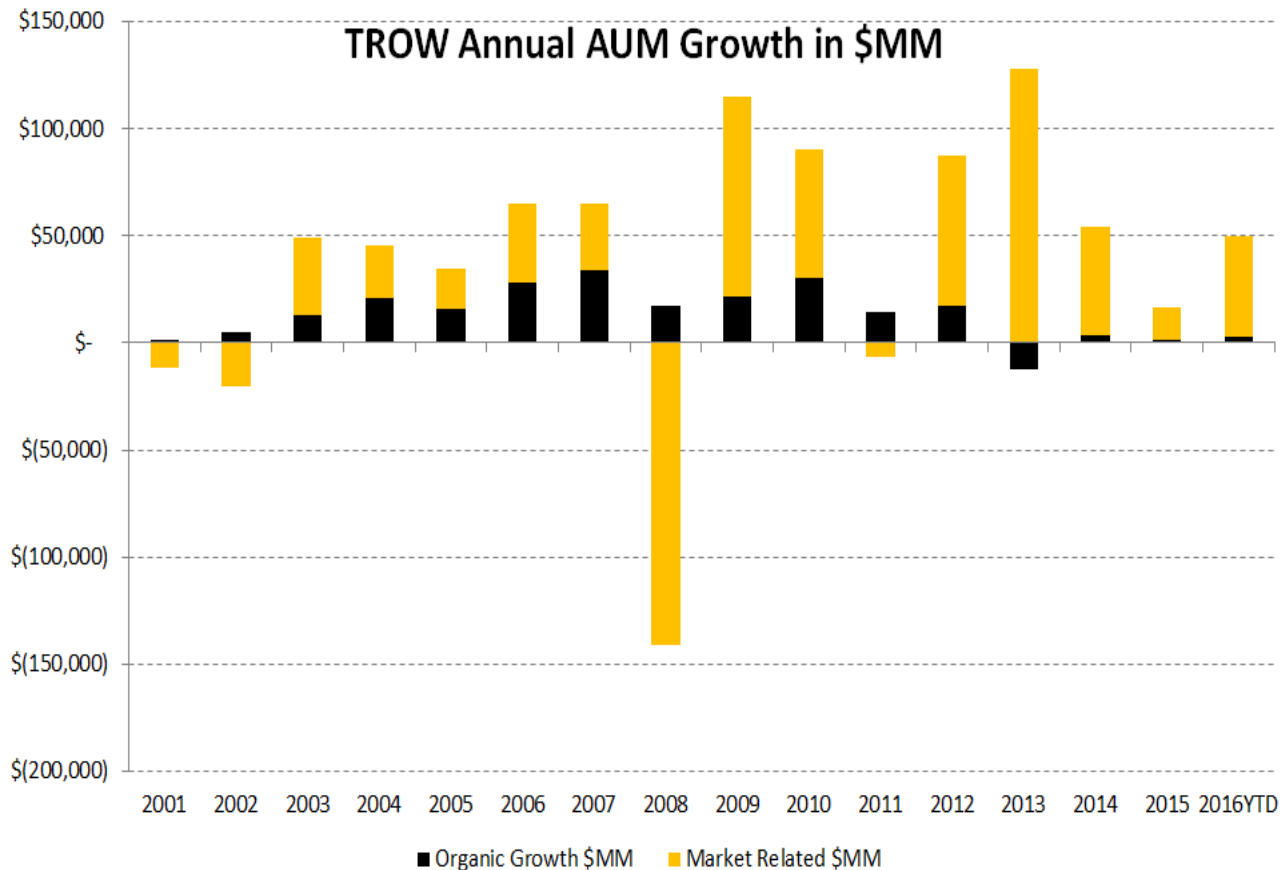
TROW Annual Organic Growth

2011	2.9%
2012	3.5%
2013	-2.1%
2014	0.5%
2015	0.2%
2016YTD	0.5%

Avg. 0.9%



PHASE TRANSITION

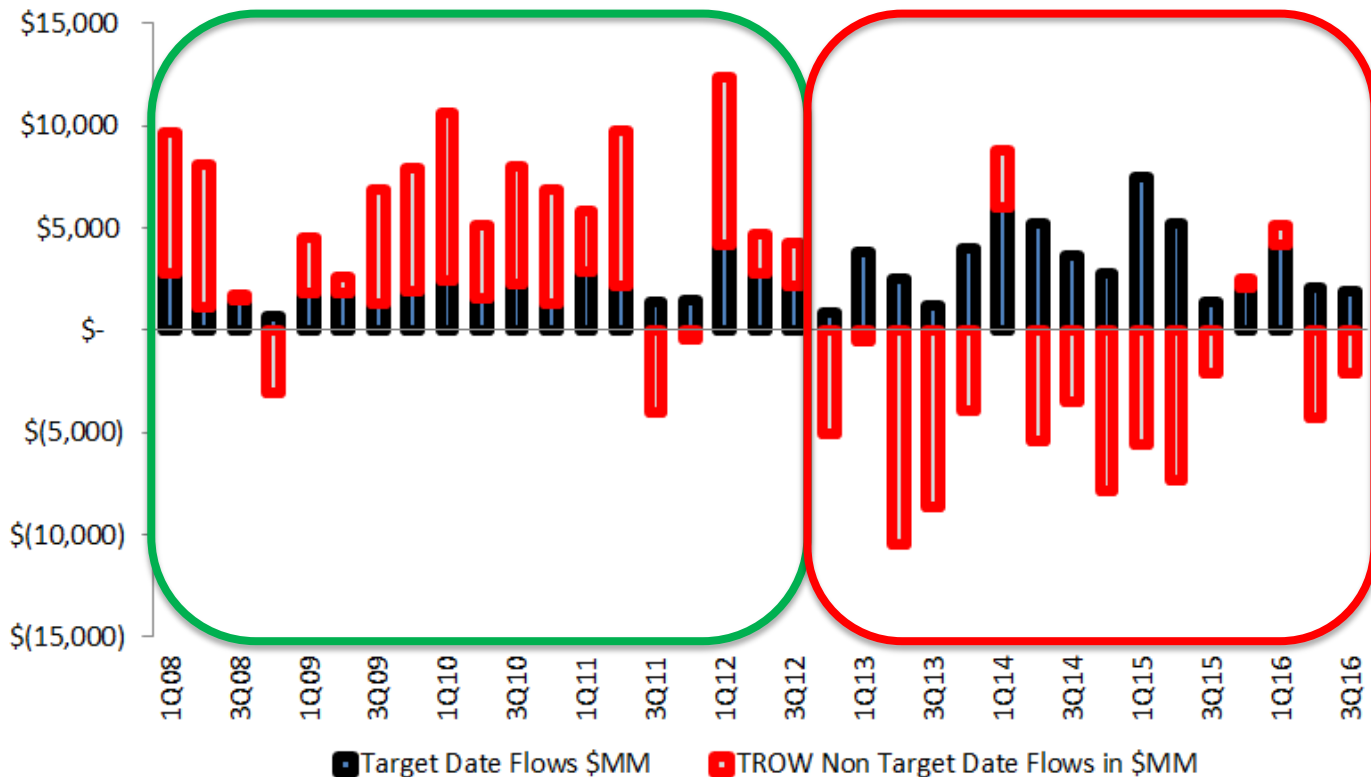


	Organic Growth \$MM		Market Related \$MM	
2001	\$	1,056	\$	(11,456)
2002	\$	4,953	\$	(20,653)
2003	\$	13,300	\$	36,100
2004	\$	20,700	\$	24,500
2005	\$	16,150	\$	18,150
2006	\$	27,800	\$	37,400
2007	\$	33,800	\$	31,500
2008	\$	17,100	\$	(140,800)
2009	\$	21,900	\$	93,100
2010	\$	30,600	\$	60,100
2011	\$	14,100	\$	(6,600)
2012	\$	17,200	\$	70,100
2013	\$	(12,000)	\$	127,600
2014	\$	3,700	\$	50,700
2015	\$	1,600	\$	14,700
2016 YTD	\$	2,700	\$	47,100

Since 2009	\$	79,800	\$	456,800
Last 3 Years	\$	8,000	\$	112,500

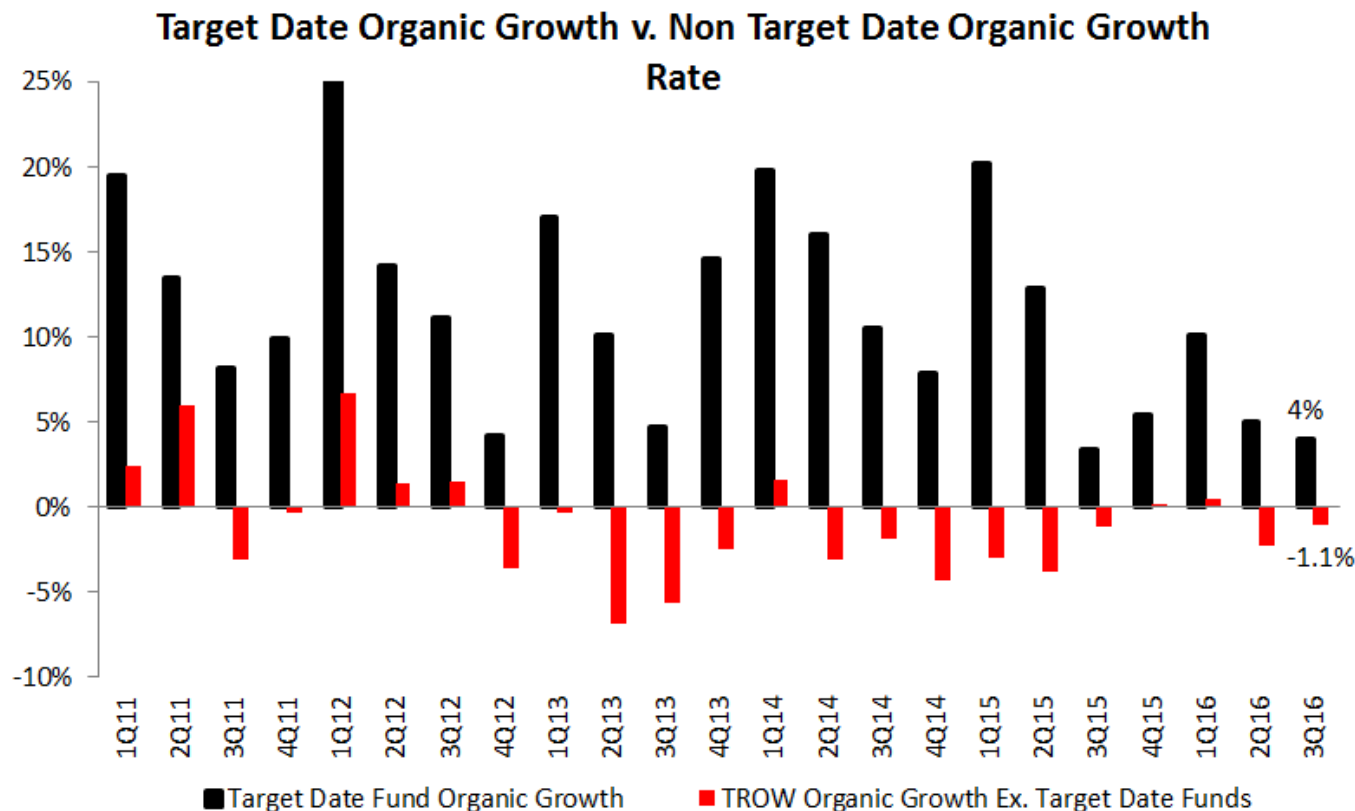
TD THE ONLY HORSE IN THE STABLE

TROW Target Date v. Non Target Date Flows in \$MM



What was once **stable** balance in flows through the end of **2012** with non target date funds averaging **\$4B** in inflow with TD at **\$2B** per quarter has turned on its head to **-\$4B** for regular funds and **\$3.4B** for TD.

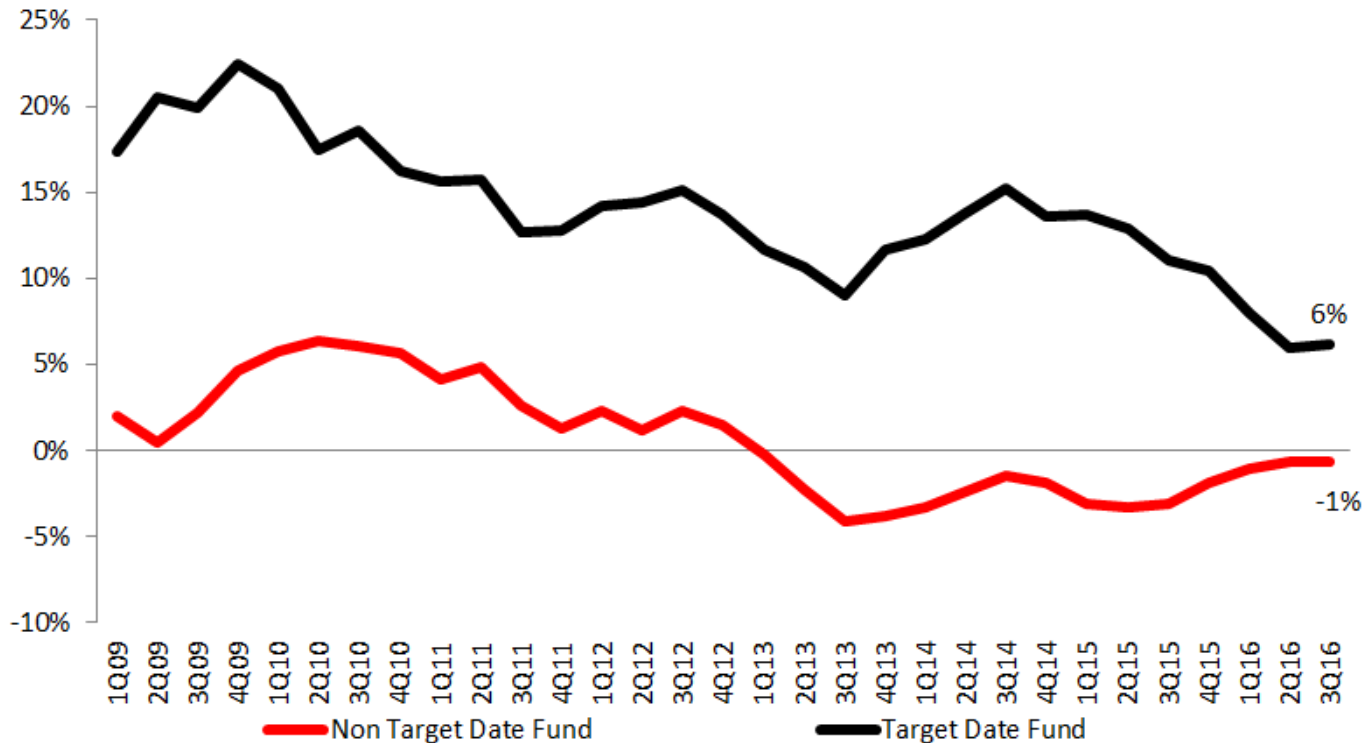
TD THE ONLY HORSE IN THE STABLE



And with the **rest of the franchise in decay** or with negative growth, Target date funds become more important and once **double digit growth** rates are now in **mid single digits**.

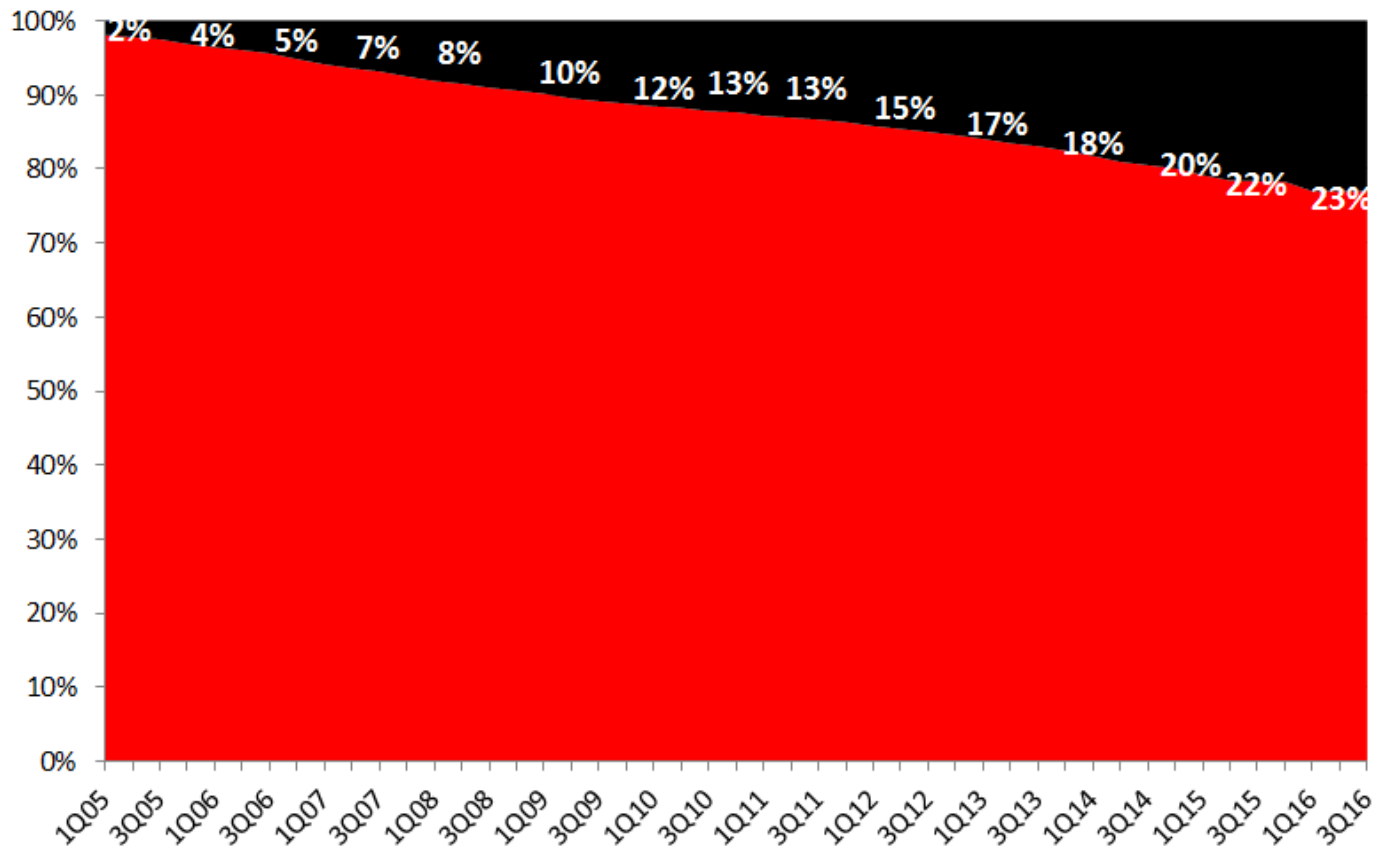
TD THE ONLY HORSE IN THE STABLE

4 Quarter Moving Average of Organic Growth



And the 4 quarter moving average gives the **fairest** picture of rolling annual trends and **high teens growth** in TD is threatening to break into **single digits**.

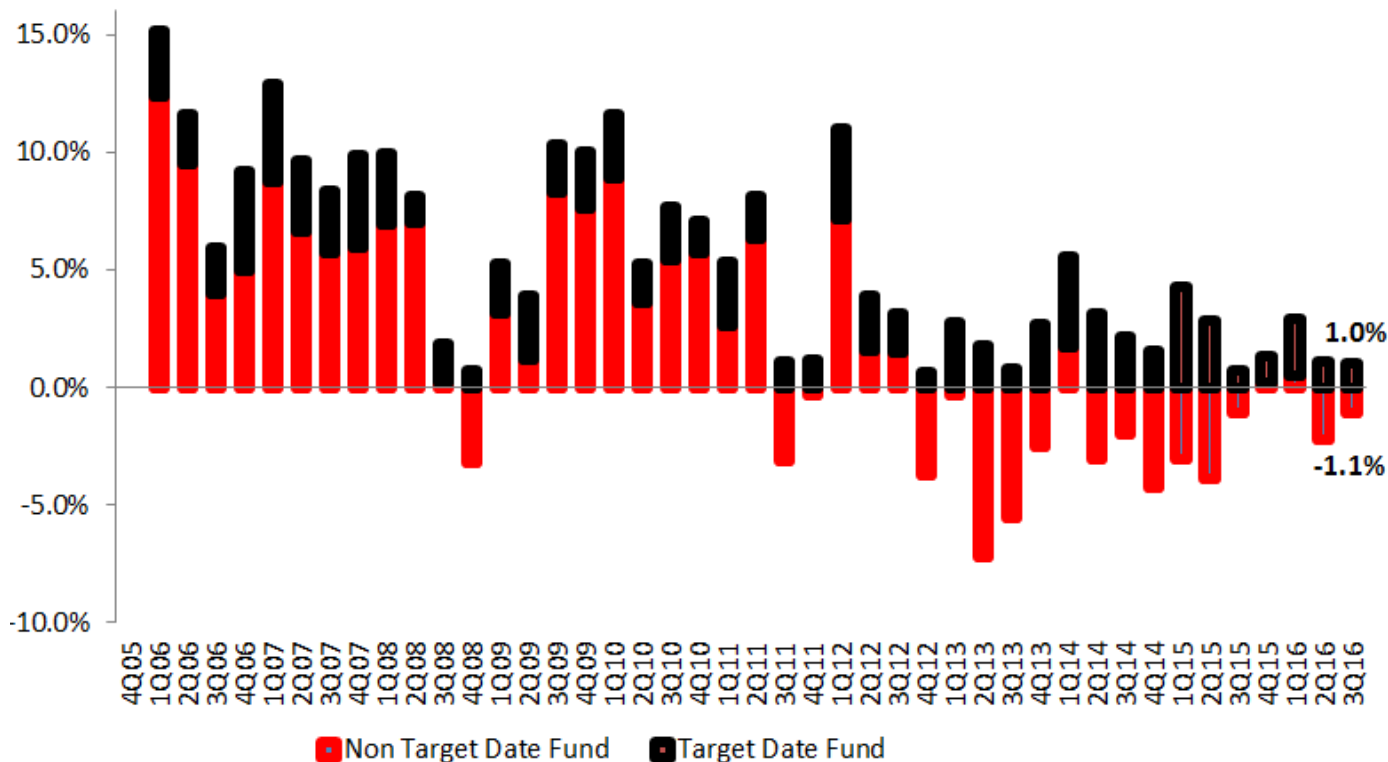
TD THE ONLY HORSE IN THE STABLE



And although **+5% growth** in target date funds is still advancement, target date is only **23% of AUM** which **won't cover the hole** in the non target date retirement business.

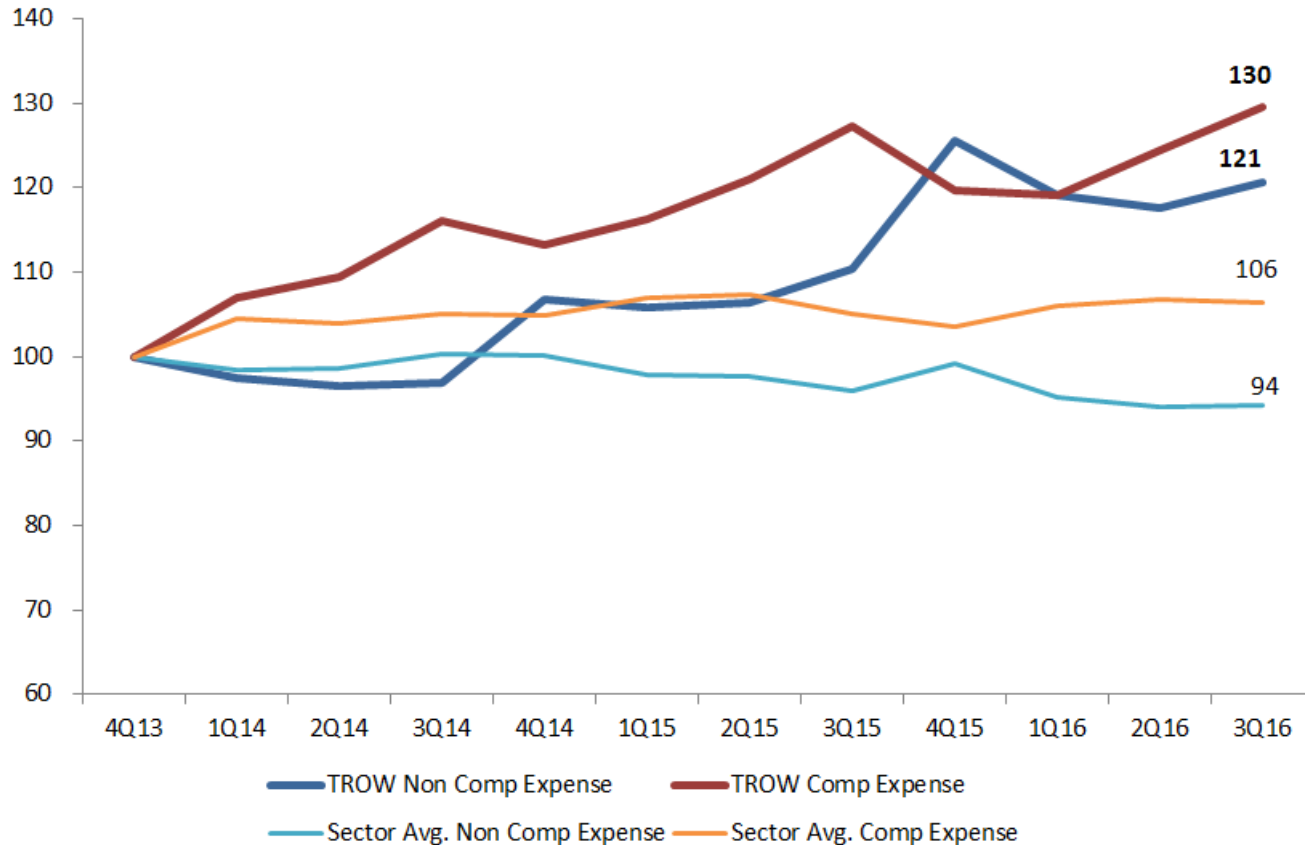
TD THE ONLY HORSE IN THE STABLE

TROW Firm Wide Organic Growth By Contribution



And looking at that **Phase Transition** from **2012** onwards and **high single digit** firm wide growth moving to **mid single digits** now moving to just **0.80% growth** as of the most recent quarter.

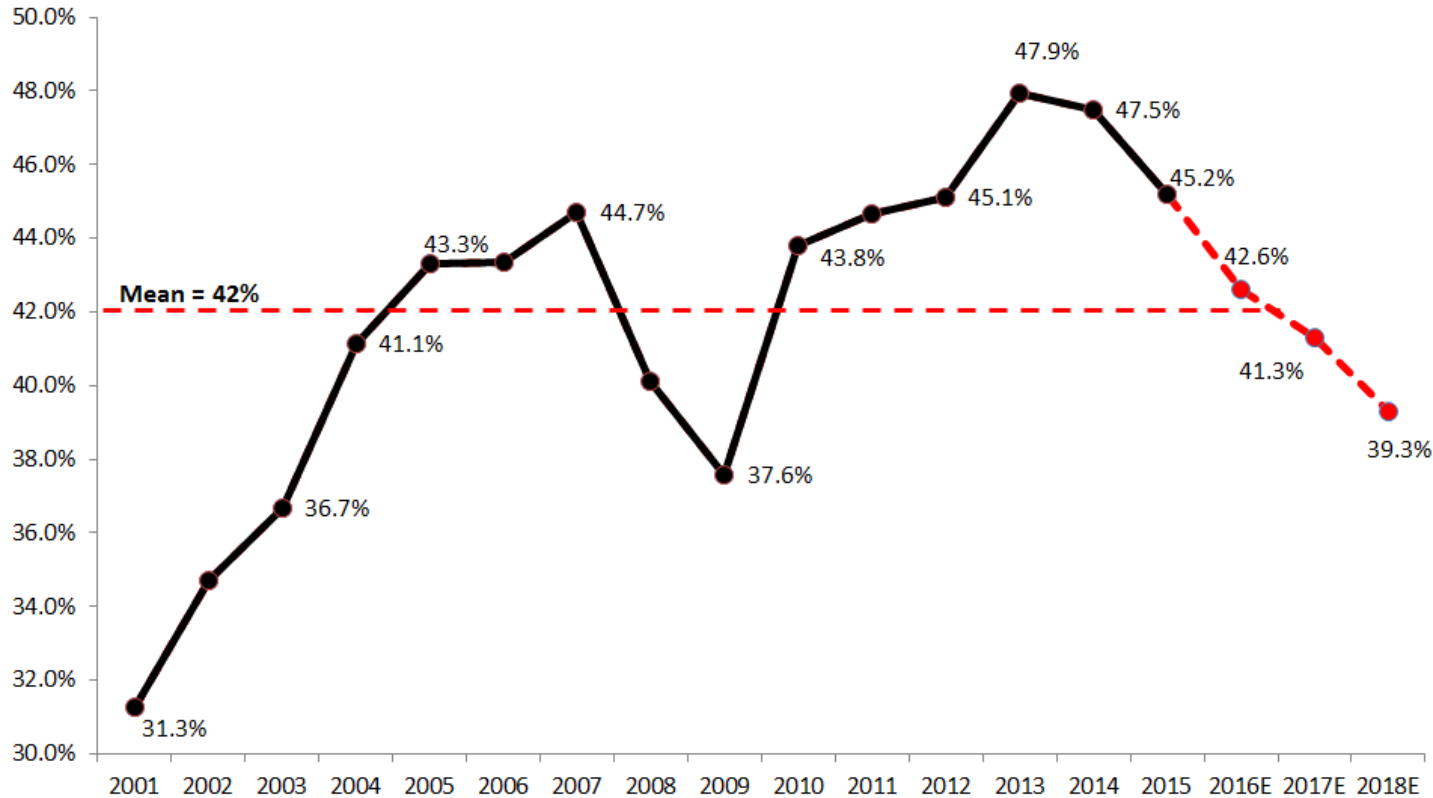
BELOW THE STREET



In an about face TROW has been **growing** its expenses with a **distribution build in Europe**. The company has guided expenses to **“mid-to-high” single digit growth** into 2017 and beyond.

BELOW THE STREET

TROW Operating Margins



TROW pretax margins **are past peak with the high water mark in 2013 at 47.9%**. Our estimates see continued pressure on profitability diving through 42% next year then going through 40% for '18

BELOW THE STREET

		Organic Growth													
		6%		4%		2%		0%		-2%		-4%		-6%	
Market Returns	12%	\$	5.33	\$	5.26	\$	5.20	\$	5.10	\$	5.02	\$	4.94	\$	4.87
	8%	\$	5.18	\$	5.10	\$	5.02	\$	4.94	\$	4.87	\$	4.79	\$	4.72
	4%	\$	5.02	\$	4.94	\$	4.87	\$	4.79	\$	4.72	\$	4.64	\$	4.60
	0%	\$	4.87	\$	4.79	\$	4.72	\$	4.64	\$	4.57	\$	4.49	\$	4.42
	-4%	\$	4.72	\$	4.64	\$	4.57	\$	4.49	\$	4.43	\$	4.35	\$	4.28
	-8%	\$	4.57	\$	4.49	\$	4.42	\$	4.35	\$	4.31	\$	4.21	\$	4.14
	-12%	\$	4.42	\$	4.35	\$	4.28	\$	4.21	\$	4.15	\$	4.07	\$	4.00

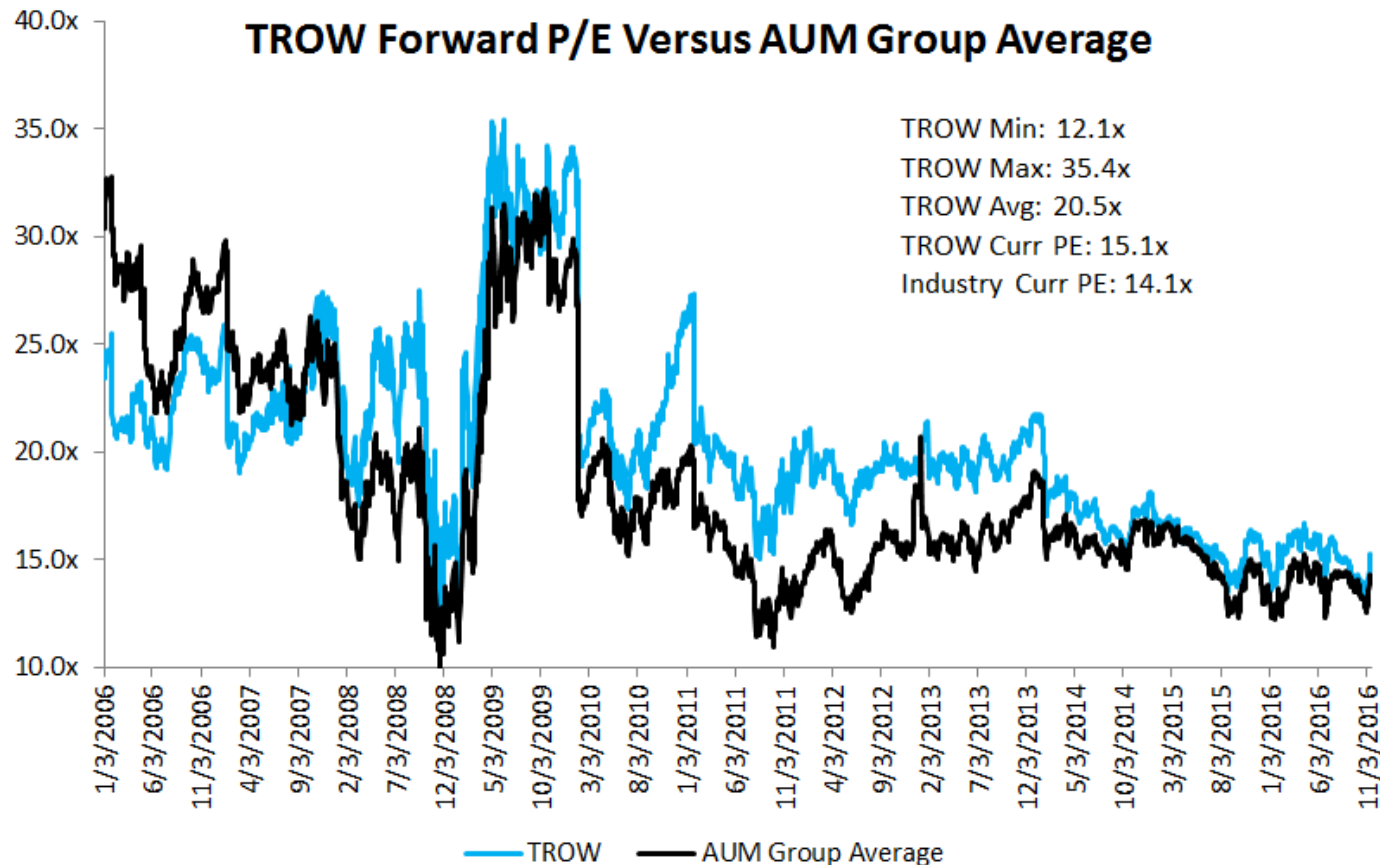


Range of Street Earnings Estimates for 2017

Hedgeye Earnings Estimates for 2017

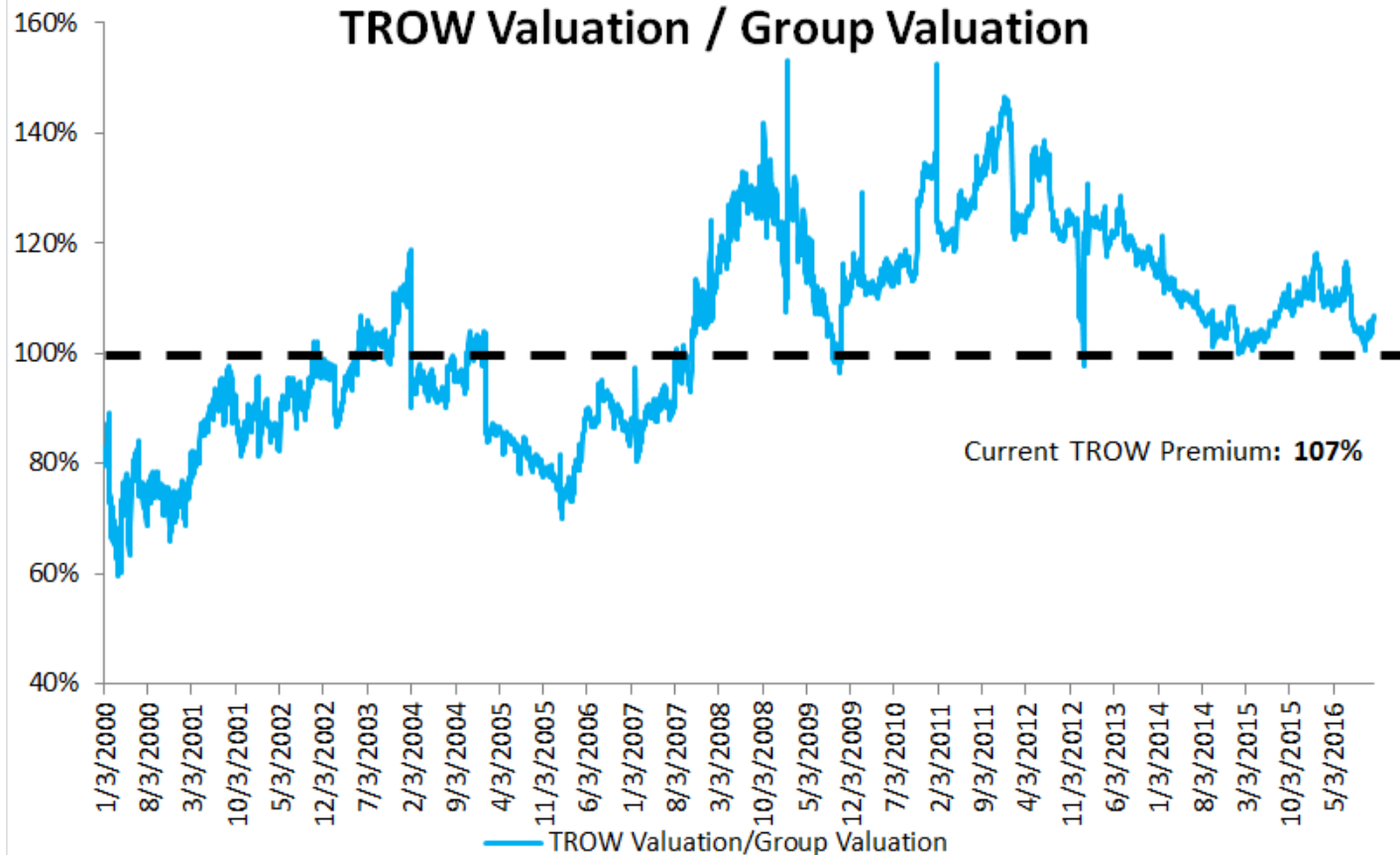
Street earnings estimates range from \$4.64 to \$5.20 for a mean of **\$4.88 for 2017**. Our estimate is \$4.43, **10% below** Consensus. For 2018 we are - **23% below** consensus at \$4 versus the Street at \$5.15

ALWAYS A BLUE CHIP PREMIUM



While trading **at the low end of its historical valuation**, TROW still maintains a premium to the rest of the asset management group with a **15.1x forward multiple** versus **14.1x** for the rest of the sector.

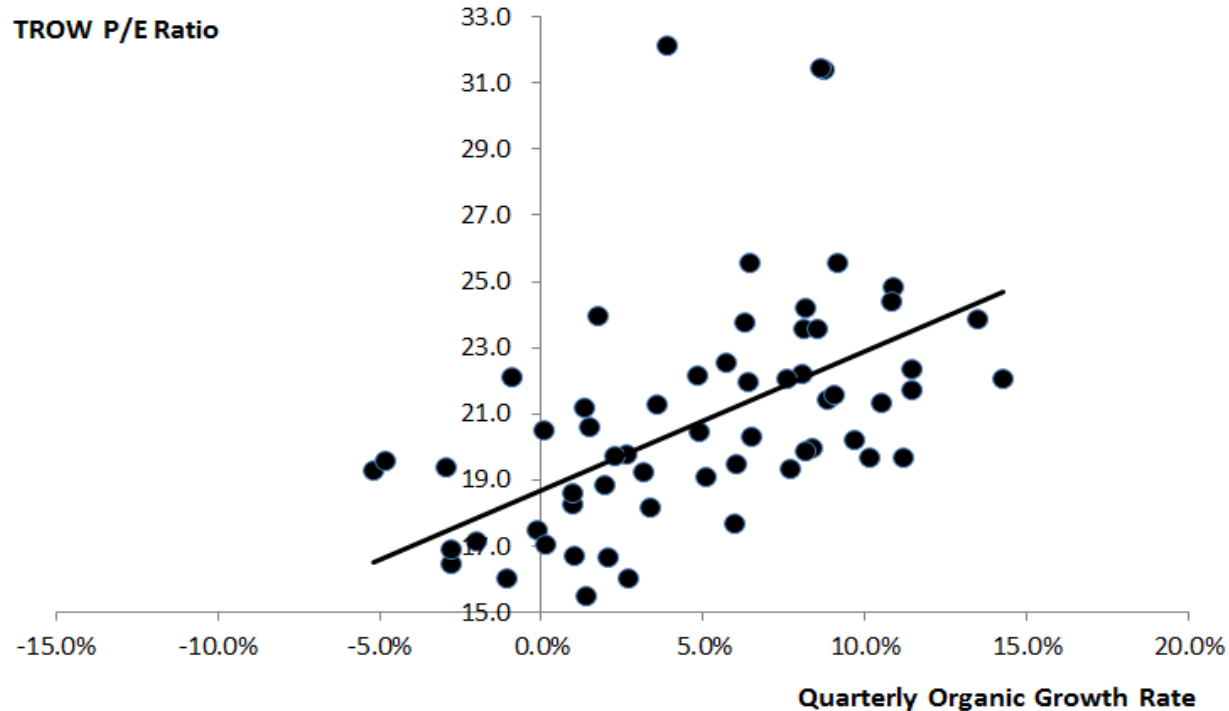
ALWAYS A BLUE CHIP PREMIUM



Thus the long standing **premium** is at risk with the **only growth coming from target date** product which is on top of our earnings estimates that are **well below consensus**.

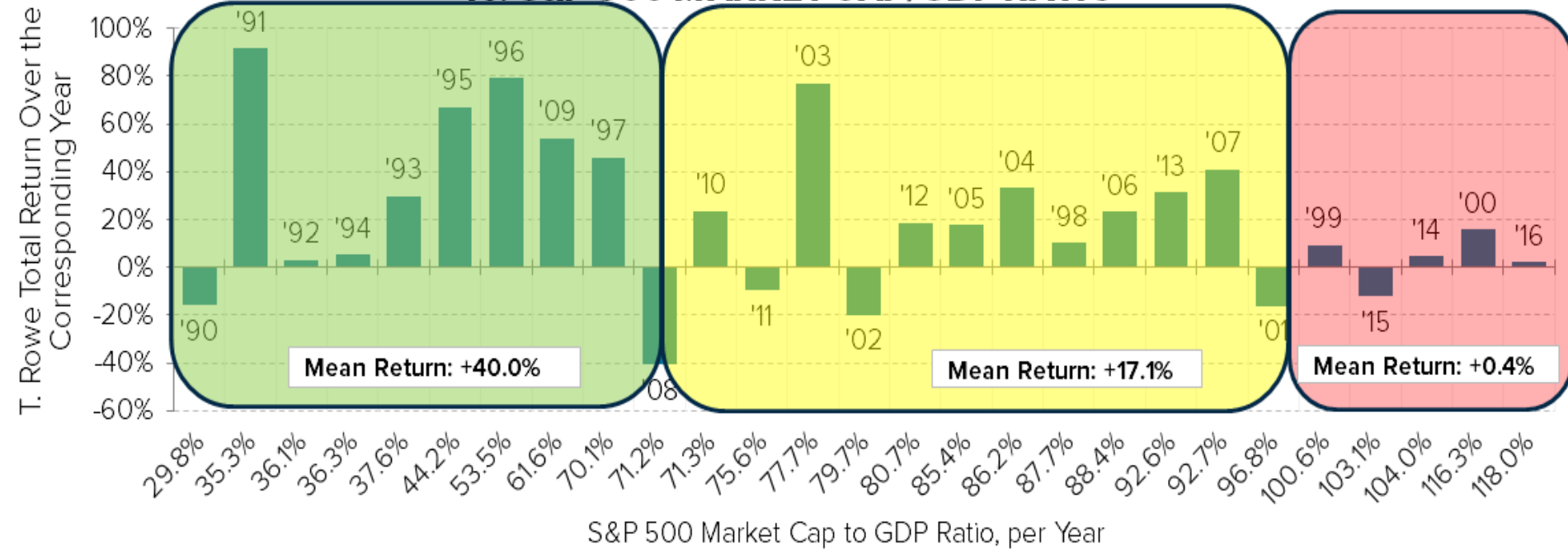
RESPONDING TO GROWTH

Quarterly Historical Organic Growth (X-axis) to P/E Ratio (Y-axis)



PROCYCLICAL IS AS PROCYCLICAL DOES

TROW ANNUAL STOCK RETURNS vs. S&P 500 MARKET CAP/GDP RATIO



Source: Bloomberg

© 2016 HEDGEYE RISK MANAGEMENT

AMBIVALENCE BY ANALYSTS/INVESTORS

T Rowe Price Group Inc		
Consensus Rating		3.56
Buys	33.3%	6
Holds	61.1%	11
Sells	5.6%	1
12M Tgt Px 12/18		
		74.38
Last Price		74.10
Pricing Currency		USD
Return Potential		0.4%
LTM Return		0.6%



Px/Chg 1D (USD)	74.07/- .48%
52 Wk H (04/26/16)	79.00
52 Wk L (11/02/16)	62.97
YTD Change/%	2.58/3.61%
Mkt Cap (USD)	18,031.1M
Shrs Out/Float	243.4M/235.1M
SI/% of Float	13.3M/5.67%
Days to Cover	4.2

RISKS OF A SHORT POSITION

	BEN	TROW	BLK	IVZ	LM
Cash (\$MM)	\$ 8,247	\$ 1,401	\$ 5,454	\$ 1,581	\$ 570
Sponsored Investments/Investment Securities (\$MM)	\$ 1,896	\$ 1,214	\$ 1,731	\$ 877	\$ 446
Long Term Debt (\$MM)	\$ 1,401	\$ -	\$ 4,961	\$ 2,073	\$ 2,221
Shares Out (MM)	584	250	166	408	102
Net Cash Per Share	\$ 11.73	\$ 5.60	\$ 2.97	\$ (1.21)	\$ (16.19)
Sponsored Investments per Share	\$ 3.25	\$ 4.85	\$ 10.43	\$ 2.15	\$ 4.37
Total Cash and Sponsored	\$ 14.97	\$ 10.46	\$ 13.40	\$ 0.94	\$ (11.81)
Current Stock Price	\$ 38.70	\$ 74.01	\$ 368.00	\$ 30.94	\$ 31.26
Net Cash per share % of Stock Price	30.3%	7.6%	0.8%	-3.9%	-51.8%
Sponsored Funds % Stock Price	8.4%	6.6%	2.8%	6.9%	14.0%
Total Cash Resources Per Share	38.7%	14.1%	3.6%	3.1%	-37.8%
Market Cap (\$MM)	\$ 22,593	\$ 18,510	\$ 61,088	\$ 12,624	\$ 3,189

CASH RESOURCES ARE DECENT AT BEN AND TROW

BEN and TROW have decent cash resources with ~\$12 per share and ~\$6 per share in net cash. BEN is the tax reform beneficiary with 60% offshore. TROW's stash is almost all domestic.

RISKS OF A SHORT POSITION

	2009	2010	2011	2012	2013	2014	2015	2016 YTD
Shares Outstanding (MM)	262	265	263	261	266	267	261	250
Avg. Stock Period for Period	\$ 40	\$ 53	\$ 59	\$ 62	\$ 75	\$ 81	\$ 78	\$ 65
Market Cap (\$MM)	\$ 10,530	\$ 13,959	\$ 15,474	\$ 16,185	\$ 19,914	\$ 21,665	\$ 20,241	\$ 17,647
Buyback (\$MM)	\$ (71)	\$ (240)	\$ (480)	\$ (135)	\$ (14)	\$ (416)	\$ (957)	\$ (526)

% Reduction	-0.7%	-1.7%	-3.1%	-0.8%	-0.1%	-1.9%	-4.7%	-3.0%
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	2009	2010	2011	2012	2013	2014	2015	2016 YTD
Common Dividend Per Share	\$ 1.00	\$ 1.08	\$ 1.24	\$ 1.36	\$ 1.52	\$ 1.76	\$ 2.08	\$ 2.16
Special Dividend Per Share	\$ -	\$ -	\$ -	\$ 1.00	\$ -	\$ -	\$ 2.00	
Common Dividend (\$MM)	\$ (262)	\$ (286)	\$ (326)	\$ (355)	\$ (405)	\$ (471)	\$ (543)	\$ (540)
Special Dividend (\$MM)	\$ -	\$ -	\$ -	\$ (261)	\$ -	\$ -	\$ (522)	\$ -
Cash Balance (\$MM)	\$ 743	\$ 813	\$ 898	\$ 879	\$ 1,398	\$ 1,506	\$ 1,170	\$ 1,401

Common Dividend Yield	2.5%	2.0%	2.1%	2.2%	2.0%	2.2%	2.7%	2.9%
Special Dividend Yield				1.6%			2.6%	

DOL FIDUCIARY RULE IS ? MARK NOW

Origins of the Rule

- Brokers and Financial Advisers long held to “suitability” rule, enforced by FINRA
- Exception: Fiduciary standard applies under ERISA (1974) to advisers to *company* pension plans (DB and DC), enforced by Labor Department (DOL)
- DOL proposed in 2010 to apply fiduciary standard to *individual* IRAs, 401(k), Keoughs but withdrew after strong opposition, promised more CBA
- Some effort to coordinate a new fiduciary rule for retirement plans (DOL) and brokerage/advisers (SEC), but no agreement
- **CEA issued report in Feb 2015 claiming that broker-sold mutual funds (infected by “conflicted advice”) under-performed other funds by at least 100 basis points, \$17 billion in extra costs for mutual funds alone**
 - Up front sales load depending on size of purchase, continuing 25 BP 12b-1 fee
- DOL followed with its fiduciary standard proposal shortly thereafter (for IRA, 401(k), Keoughs and for Variable annuities): aimed mainly low-moderate \$ accounts

The **source** of the forthcoming DOL Fiduciary Rule is that a simple study of **3rd party distributed retirement products** underperformed other funds **by >100 bps** so the rule focuses on governing those products

DOL FIDUCIARY RULE IS A ? MARK NOW

The Real World: Who Benefits?

- **Robo-advisers:** Betterment, Wealthfront, Honest Dollar (just bought by Goldman), may be the future retirement investment vehicle for low/modest dollar accounts
- **Index funds** (numerous providers, not just Vanguard and Fidelity)
- **Ironically, some wealth advisers**, again not just Vanguard/Fidelity and other mutual funds groups, may benefit to extent small/moderate accounts move to wrap fees
 - In theory, advisers charging one-time or infrequent fees could benefit, provided they are not too large to attract class action suits if they under-perform
 - **But larger benefits to those advisers, brokers, fund families that charge wrap fees in lieu of sales commissions; Edward Jones/LPL already offering fee based accounts with as little as \$5000 (mutual funds/ETFs only, no stocks, no automatic rebalancing)**
 - Morningstar estimates fee-based accounts will *increase* advisory income by 60%, \$13B/year in additional revenue for advisory business
- End-user savers, *if they move to low-cost services (robo/index), don't fall for wrap fees, and avoid market timing*

Thus **index funds** will get a boost as by definition **they are not active or conflicted advice** and can't underperform the market so advisers will be **absolved from liability** if they use them.

DOL FIDUCIARY RULE IS A ? MARK NOW

Our assets under management are accumulated from a diversified client base across four primary distribution channels: third-party financial intermediaries that distribute our managed investment portfolios in the U.S. and other countries; individual U.S. investors on a direct basis; U.S. defined contribution retirement plans; and institutional investors globally. As of December 31, 2015, more than forty-five percent of our assets under management are sourced from our third-party financial intermediary distribution channel with the remaining three distribution channels comprising the balance. We have taken steps to broaden and deepen our distribution reach in overseas markets and with financial intermediaries in the U.S., Europe and Asia. These initiatives are part of multi-year plans designed to further diversify our assets under management and client base. For the foreseeable future, we will continue to make key hires and make investments in infrastructure to support these initiatives.

RECENT 10-K DISCLOSURE

TROW's most recent annual filing outlined that **45%** of its AUM is distributed by 3rd party intermediaries

DOL FIDUCIARY RULE IS A ? MARK NOW

Exhibit 11: Top IRA Providers by assets under administration (AUA, \$B)

Rank	Firm	Assets
1	Fidelity Investments	1,140
2	Charles Schwab	602
3	Bank of America Merrill Lynch	576
4	Morgan Stanley	536
5	Vanguard	401
6	Wells Fargo	392
7	Pershing, LLC	262
8	TD Ameritrade	228
9	Ameriprise Financial	226
10	UBS	184
11	LPL	142
12	MetLife	89
13	T. Rowe Price	77
14	USAA	61
15	TIAA-CREF	56

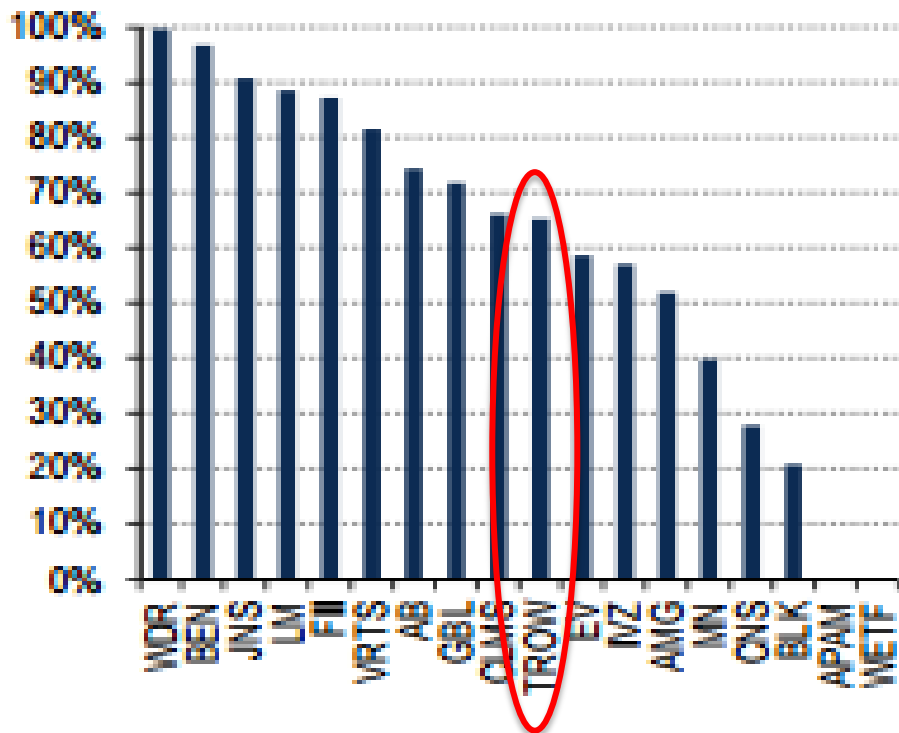
Note: Asset balances as of 2Q 2015

Source: Cerulli Retirement Markets 2015 report

The Fiduciary Rule also **all but insures that record keeping and AUA costs will go up** for IRA providers and TROW is a **Top 15** provider with just over **10% of its AUM in IRAs.**

DOL FIDUCIARY RULE IS ONEROUS

Exhibit 28: % of mutual fund AUM subject to 12b-1 fees



While nowhere near the top of payers to the brokerage community, **over 60% of TROW funds** do pay for 3rd party distribution **via the 12b-1 fee.**

RISKS OF A SHORT POSITION

Table 5: % of 4 or 5 Star Rated Funds (All) (Fund weighted, rather than asset weighted)

	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Oct'16
AB	26.8%	23.0%	21.7%	18.3%	23.3%	24.1%	47.5%	50.8%
BLK	37.7%	38.9%	41.4%	42.0%	43.4%	42.7%	39.9%	41.1%
EV	14.7%	16.7%	15.3%	18.2%	17.7%	53.6%	49.6%	51.3%
FII	30.5%	28.1%	26.6%	29.2%	29.2%	27.7%	32.8%	31.3%
BEN	15.2%	14.0%	17.0%	15.2%	11.9%	15.0%	14.9%	15.8%
IVZ	30.4%	27.3%	28.9%	30.2%	29.1%	32.6%	30.5%	29.5%
JNS	40.5%	33.3%	41.7%	40.0%	45.7%	44.7%	47.4%	47.4%
LM	15.9%	23.5%	18.8%	24.3%	19.4%	17.5%	17.8%	16.8%
TROW	66.3%	65.6%	70.2%	70.5%	70.8%	74.5%	71.4%	71.0%
WDR	23.9%	29.8%	25.5%	19.1%	19.1%	16.0%	14.0%	18.0%

Source: Strategic Insight.

PERFORMANCE

Performance at the TROW complex is still top of the industry tables however returns alone are not enough to stem the secular shift out of active management

THESIS: A BLUE CHIP COMPANY WITH BLUE TRENDS

1

3 YEAR MORNINGSTAR HANGOVER

3 Year Morningstar numbers are about to rollover because TROW will be swapping an excellent 2013 for a year of relative underperformance in 2016. This puts over \$140 billion of 4 star rated mutual funds on the cusp of lower ratings. 3 star rated product experience little or no flow.

2

PASSIVES CONTINUING TO ATTACK CORE AND TARGET DATE

TROW has the biggest Large Cap equity exposure of the public asset managers, which is exactly where industry losses to passives occur. In addition, the firm continues to fight this market share shift with over 20% of its funds closed to protect performance or for use by its Target Date business. TROW's target date franchise is the only source of growth now in the mid single digits as baby boomers retire and passive share growth continues.

3

MARGIN COMPRESSION ON COSTS

We expect continued operating margin compression on the business as fees continue to drop in the industry in combination with an investment cycle by the company to build out its European distribution. TROW margins are past peak and we see operating margin under 40% into 2018 with earnings over -20% below Consensus.

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