

TARGET DATE FUND COMMENTARY 3RD QUARTER, 2021

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Our mission is to enrich the lives of our clients, colleagues and communities through sound financial advice, integrity, and commitment to service beyond expectation.



T. ROWE PRICE RETIREMENT

MEETING DATE: OCTOBER 18, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no material changes to the target date investment team during the quarter.

Investments Update

COMMENTARY

T. Rowe Price has added a new equity strategy, U.S. Structured Research Equity, to fill the remaining U.S. large-cap core sleeve. The team had been ramping up a position in T. Rowe Price Large Cap Core however, the portfolio manager abruptly announced his retirement, and will be leaving the firm in April 2022. When this occurs, a new portfolio manager will take over and implement a new process. As a result, the team elected to pause any new allocations to the strategy and added U.S. Structured Research Equity to fill the slot. The strategy is already used in the Retirement Hybrid Trust series, so the team is familiar with its characteristics and has conviction in its track record as a core equity strategy.

T. Rowe Price continues to make progress on implementing the glidepath changes that were announced in February 2020. The team is on track to have the changes completed by the planned deadline of mid-2022.



T. ROWE PRICE RETIREMENT

MEETING DATE: OCTOBER 18, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

T. Rowe Price Retirement Performance Update:

T. Rowe Price Retirement produced mixed results relative to the benchmark, but solidly outperformed peers in the third quarter.

- Relative to the benchmark, Retirement's near-dated vintages outperformed while the further-dated vintages underperformed.
- With equity markets experiencing elevated volatility in the third quarter, it is impressive to see the near-dated vintages hold up despite their above average equity allocation.
- The primary driver of performance was the series' underlying managers, particularly in the large-cap value and small-cap sleeves.
- T. Rowe Price Value was a top performer as the strategy's bias towards high quality companies was rewarded during the third quarter.
- T. Rowe Price Small-Cap Stock and Small-Cap Value both added value by outperforming their benchmarks with strong stock selection in health care and information technology, respectively.
- T. Rowe Price's tactical positioning was a slight detractor in the third quarter.
- The series continues to hold a broad overweight to bonds and cash relative to equity and this aided performance as bonds mostly outperformed stocks during the quarter.
- However, these gains were offset by Retirement's overweight position in emerging markets equity relative to the U.S.
- This position weighed on results due to the sell-off in China stemming from increased uncertainty regarding the regulatory environment in the country.

Positioning Update:

T. Rowe Price held its tactical positioning static during the third quarter. The team continues to be cautious at the broad stock/bond asset class level while it targets more specific opportunities at the regional and sector level. The portfolios have a slight overweight to bonds and cash relative to equities given concerns around slowing stimulus. However, the team has kept the target date series' market beta in line with the strategic target by overweighting cyclical sectors within equities.

- The team continues to have conviction in the reopening/reflation trade and maintained its overweight to U.S. value stocks versus U.S. growth stocks and its overweight to international value versus international growth.
- The team also maintained overweight positions in U.S. small-cap equities and emerging markets equities as it believes these sectors will also benefit from the reopening trade.
- Within fixed income, T. Rowe Price is very mindful of its duration position and does not want to extend it given the possibility of interest rates continuing to move higher as economic growth continues to expand.
- Given this stance, the team has held an underweight position to investment grade bonds in favor of floating rate bonds and high yield debt, which are less sensitive to rising rates.
- The series is also overweight short-term TIPS as a hedge against rising inflation.

Note: Benchmark relative performance refers to fund performance compared to the S&P Target Date Indices.



T. ROWE PRICE RETIREMENT TRUST

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Organizational Update

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T. Rowe Price has added a new equity strategy, U.S. Structured Research Equity, to fill the remaining U.S. large-cap core sleeve. The team had been ramping up a position in T. Rowe Price Large Cap Core however, the portfolio manager abruptly announced his retirement, and will be leaving the firm in April 2022. When this occurs, a new portfolio manager will take over and implement a new process. As a result, the team elected to pause any new allocations to the strategy and added U.S. Structured Research Equity to fill the slot. The strategy is already used in the Retirement Hybrid Trust series, so the team is familiar with its characteristics and has conviction in its track record as a core equity strategy.

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T. ROWE PRICE RETIREMENT TRUST

MEETING DATE: OCTOBER 18, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

T. Rowe Price Retirement Trust Performance Update:

T. Rowe Price Retirement Trust produced mixed results relative to the benchmark, but solidly outperformed peers in the third quarter.

- Relative to the benchmark, Retirement Trust's near-dated vintages outperformed while the further-dated vintages underperformed.
- With equity markets experiencing elevated volatility in the third quarter, it is impressive to see the near-dated vintages hold up despite their above average equity allocation.
- The primary driver of performance was the series' underlying managers, particularly in the large-cap value and small-cap sleeves.
- T. Rowe Price U.S. Value Equity was a top performer as the strategy's bias towards high quality companies was rewarded during the third quarter.
- T. Rowe Price U.S. Small-Cap Core and Small-Cap Value both added value by outperforming their benchmarks with strong stock selection in health care and information technology, respectively.
- T. Rowe Price's tactical positioning was a slight detractor in the third quarter.
- The series continues to hold a broad overweight to bonds and cash relative to equity and this aided performance as bonds mostly outperformed stocks during the quarter.
- However, these gains were offset by Retirement Trust's overweight position in emerging markets equity relative to the U.S.
- This position weighed on results due to the sell-off in China stemming from increased uncertainty regarding the regulatory environment in the country.

Positioning Update:

T. Rowe Price held its tactical positioning static during the third quarter. The team continues to be cautious at the broad stock/bond asset class level while it targets more specific opportunities at the regional and sector level. The portfolios have a slight overweight to bonds and cash relative to equities given concerns around slowing stimulus. However, the team has kept the target date series' market beta in line with the strategic target by overweighting cyclical sectors within equities.

- The team continues to have conviction in the reopening/reflation trade and maintained its overweight to U.S. value stocks versus U.S. growth stocks and its overweight to international value versus international growth.
- The team also maintained overweight positions in U.S. small-cap equities and emerging markets equities as it believes these sectors will also benefit from the reopening trade.
- Within fixed income, T. Rowe Price is very mindful of its duration position and does not want to extend it given the possibility of interest rates continuing to move higher as economic growth continues to expand.
- Given this stance, the team has held an underweight position to investment grade bonds in favor of floating rate bonds and high yield debt, which are less sensitive to rising rates.
- The series is also overweight short-term TIPS as a hedge against rising inflation.

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T. ROWE PRICE TARGET

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T. ROWE PRICE TARGET

MEETING DATE: OCTOBER 18, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

T. Rowe Price Target Performance Update:

T. Rowe Price Target rebounded in the third quarter following a somewhat disappointing second quarter. The series outperformed peers across the glidepath and mostly outperformed the benchmark.

- Relative to the benchmark, Target outperformed in the vintages closer to and in retirement.
- These vintages benefited from their allocation to high yield bonds, which were the top performing fixed income asset class during the quarter.
- The most impactful driver of returns during the quarter, was the series' active equity managers, particularly in the large-cap value and small-cap sleeves.
- T. Rowe Price Value was a top performer as the strategy's bias towards high quality companies was rewarded during the third quarter.
- T. Rowe Price Small-Cap Stock and Small-Cap Value both added value by outperforming their benchmarks with strong stock selection in health care and information technology, respectively.
- T. Rowe Price's tactical positioning was a slight detractor in the third quarter.
- The series continues to hold a broad overweight to bonds and cash relative to equity and this aided performance as bonds mostly outperformed stocks during the quarter.
- However, these gains were offset by Retirement's overweight position in emerging markets equity relative to the U.S.
- This position weighed on results due to the sell-off in China stemming from increased uncertainty regarding the regulatory environment in the country.

Positioning Update:

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- The team continues to have conviction in the reopening/reflation trade and maintained its overweight to U.S. value stocks versus U.S. growth stocks and its overweight to international value versus international growth.
- The team also maintained overweight positions in U.S. small-cap equities and emerging markets equities as it believes these sectors will also benefit from the reopening trade.
- Within fixed income, T. Rowe Price is very mindful of its duration position and does not want to extend it given the possibility of interest rates continuing to move higher as economic growth continues to expand.
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T. ROWE PRICE RETIREMENT HYBRID TRUST

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T. ROWE PRICE RETIREMENT HYBRID TRUST

MEETING DATE: OCTOBER 18, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

T. Rowe Price Retirement Hybrid Trust Performance Update:

T. Rowe Price Retirement Hybrid Trust produced mixed results in the second quarter as it outperformed peers but underperformed the benchmark.

- Retirement Hybrid's active managers mostly added value during the quarter, but the series' tactical positioning was a detractor.
- The series uses active managers in the growth and value equity sleeves and most of the fixed income portfolio.
- Within equities, Retirement Hybrid's top performing managers were U.S. Small-Cap Growth and U.S. Small-Cap Value.
- Both strategies outperformed their benchmarks with strong stock selection in health care and information technology, respectively.
- The series also benefitted from its inclusion of high yield bonds, which were the top performing fixed income asset class during the quarter.
- T. Rowe Price's tactical positioning was a slight detractor in the third quarter.
- The series continues to hold a broad overweight to bonds and cash relative to equity and this aided performance as bonds mostly outperformed stocks during the quarter.
- However, these gains were offset by Retirement's overweight position in emerging markets equity relative to the U.S.
- This position weighed on results due to the sell-off in China stemming from increased uncertainty regarding the regulatory environment in the country.

Positioning Update:

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- The team also maintained overweight positions in U.S. small-cap equities and emerging markets equities as it believes these sectors will also benefit from the reopening trade.
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