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How Do T. Rowe Price Funds Stack Up?

By [Katie Rushkewicz Reichart, CFA](#) | 09-20-12 | 06:00 AM | [Email Article](#)

Recently my colleague Christopher Davis took a [look](#) at how Fidelity's funds have fared under the new Morningstar Analyst Rating system. Below we'll review T. Rowe Price's pockets of strength and (relative) weakness.

The good news for T. Rowe fund investors is that most funds have received favorable ratings. Morningstar analysts have rated 53 of its 111 funds as of mid-September, representing nearly 88% of the firm's mutual fund assets. Of those 53 funds, 22 (41.5%) are rated Gold, 12 (22.6%) Silver, 10 (18.9%) Bronze, and nine (17%) Neutral. No fund has received a Negative rating.

The firm's domestic-equity funds are a strong spot, with all but a few garnering a rating of Bronze or above. The funds overseen by the asset-allocation team, including the target-date series, all receive scores of Gold or Silver thanks to solid underlying investments and tactical decisions that have paid off over the long term. The firm's municipal-bond funds are rated Gold and Silver, with the experienced team's risk-conscious approach giving them a leg up. The taxable funds are mostly solid, if not outstanding, options, with ratings ranging from Neutral to Gold.

The most evident area of weakness is international equity. No funds in this asset class received a Gold rating, and only one is rated Silver. While three are rated Bronze, the bulk (five funds in total) are in the Neutral bucket. That's not entirely surprising, as the firm's international-equity operation is the least established part of the organization. The firm has built out its resources over the past decade, but some funds still have relatively inexperienced managers or undistinguished processes that have not yet merited a recommendation.

Parent and Price are two areas the firm's funds score well across the board. The positive Parent rating is driven by the firm's strong investment culture, retention of key personnel, and well-planned manager transitions. All but one rated fund received a positive Price score. ([➤ T. Rowe Price Equity Index 500's \(PREIX\)](#) 30-basis-points expense ratio isn't competitive relative to other S&P 500 Index funds, so it scores Neutral on price.) That means Process, People, and Performance are the areas where a fund can distinguish itself as stellar or simply mediocre.

Top Tier

The highest-rated funds are largely run by longtime managers who have shown they can outperform over a full market cycle. All but one Gold-rated fund have managers with tenures of 10-plus years. (David Giroux's six-year tenure at [➤ T. Rowe Price Capital Appreciation \(PRWCX\)](#) is the exception.)

The firm's well-respected analyst team provides an instant advantage, which is likely a reason no fund has been rated Negative. That doesn't mean all funds are equal, though. The best offerings at T. Rowe are run by managers who effectively utilize the analysts' research but go beyond compiling a list of top recommendations. These managers put their own stamp on the fund, whether it's diving into stock-specific research, seeking out picks that aren't widely held by peers, or developing unique

theses on stocks.

Most managers are former T. Rowe analysts who can draw on their past experience. Joe Milano's time as a small/mid-cap analyst helps him put a spin on [T. Rowe Price New America Growth \(PRWAX\)](#), a large-growth fund that invests across the market-cap spectrum. That's led to picks that aren't prominent fixtures in other large-cap funds, such as Valmont Industries ([VMI](#)), and others that Milano closely follows on his own, including [Fastenal \(FAST\)](#).

Similarly, [T. Rowe Price Mid-Cap Value \(TRMCX\)](#) (closed to new investors) gets an edge from the stock-specific research David Wallack and associate manager Heather McPherson perform. They use a variety of valuation techniques and look beyond the obvious to sniff out good opportunities. For instance, title insurer [Fidelity National Financial \(FNF\)](#) has benefited from a consolidating industry, but the "hidden assets" on its balance sheet (including timber and restaurants) made it even more attractive.

T. Rowe has also demonstrated a competitive edge in certain sectors. Gold-rated [T. Rowe Price Health Sciences \(PRHSX\)](#) is run by Kris Jenner, a physician by training. His patient, growth-oriented approach has emphasized mid- and small-cap names, which can hurt in volatile markets but has led to stellar long-term returns. (His picks have also proved valuable to many diversified-equity funds, particularly in complex industries like biotechnology, where the diversified managers rely heavily on his guidance). Gold-rated [T. Rowe Price Real Estate \(TRREX\)](#) and Silver-rated [T. Rowe Price Media & Telecommunications \(PRMTX\)](#) add to the firm's strong stable of sector funds.

Good Contenders

Gold-rated funds may get more of the glory, but Silver and Bronze funds shouldn't be overlooked. They're still recommended--some even receive positive scores for all five pillars-- just with less conviction than their Gold counterparts. [T. Rowe Price Small-Cap Value \(PRSVX\)](#) and [T. Rowe Price Small-Cap Stock \(OTCFX\)](#) have received Silver ratings. Despite boasting longtime managers, strong returns, and low volatility, asset size remains a reason for caution. Others sport good records but might appear more benchmark-centric or lack a unique twist on the process that higher-rated funds have, including Bronze-rated [T. Rowe Price Blue Chip Growth \(TRBCX\)](#), [T. Rowe Price Growth & Income \(PRGIX\)](#), and [T. Rowe Price New Income \(PRCIX\)](#). While not necessarily best in breed, Bronze- and Silver-rated funds still have good long-term potential.

Mediocre or Unproven

A manager change, undistinguishable strategy, or uneven performance record can warrant a Neutral rating. Many in this group have relatively new managers who lack a long track record. It's hard to have confidence in a manager who's taking on a diversified fund for the first time, even if he's successfully run a sector fund. The skill set required is different, requiring more interactions with a wider group of analysts and broader portfolio risk controls. While the manager might nail stock-picking in the sector he used to cover, that success might not translate elsewhere. On the plus side, T. Rowe typically allows for a long transition period before the new manager is on his own, but it's still prudent to see how a manager fares with his new charge before recommending it.

Mark Finn has a 20-plus-year career at T. Rowe, including time as an industrials and

distressed debt analyst, but he's only managed [T. Rowe Price Value \(TRVLX\)](#) since January 2010. He's worked closely with analysts on stock-specific research in sectors where he has less familiarity, including financials. He's also put his own spin on the fund with picks that aren't held by the firm's other value-oriented managers, including LyondellBasell Industries ([LYB](#)) and [Moody's \(MCO\)](#). Still, it's hard to recommend the fund at this stage without seeing how he fares in different market environments.

It's a similar story with Jonathan Matthews, who took over [T. Rowe Price International Growth & Income \(TRIGX\)](#) in July 2010. But a short tenure isn't the only reason for Neutral ratings on the international-equity side. Ray Mills has managed [T. Rowe Price Overseas Stock \(TROSX\)](#) since 2006 and ran International Growth & Income from 2002-10. However, his process, which favors diversification and keeps sector weightings close to the MSCI EAFE, hasn't differentiated the fund. That's led to results that edge the benchmark and average peer, but not meaningfully so. It's hard to give the fund a strong vote of confidence given how competitive the foreign large-cap space is.

Overall, though, investors in T. Rowe Price funds can feel confident that they're in pretty good shape.

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