T.RowePrice®
INVEST WITH CONFIDENCE

QUARTERLY REVIEW

U.S. Equity Research Fund

As of June 30, 2019

PORTFOLIO HIGHLIGHTS

The portfolio performed in line with the benchmark during the three-month period ended June 30, 2019.

Relative performance drivers:

- Stock selection in the industrials and business services and utilities sectors contributed to relative results.
- Negative stock selection in the health care and energy sectors weighed on relative returns.

FUND INFORMATION

Symbol	PRCOX
CUSIP	77954P108
Inception Date of Fund	November 30, 1994
Benchmark	S&P 500 Index
Expense Information (as of the most recent Prospectus)*	0.54% (Gross) 0.50% (Net)
Fiscal Year End	December 31
12B-1 Fee	–
Total Assets (all share classes)	$784,932,071
Percent of Portfolio in Cash	0.8%

* The Fund operates under a contractual expense limitation that expires on April 30, 2021. As a result of other class' contractual expense limitations, T. Rowe Price Associates, Inc. waived fund-level expenses proportionately across all classes. There is no guarantee that these impacts on this share class will continue for the length of the contractual waiver in place on the other class.

PERFORMANCE

(NAV, total return)

				Annualized			
	Three Months	Year-to-Date	One Year	Three Years	Five Years	Ten Years	Fifteen Years
U.S. Equity Research Fund	4.33%	19.42%	10.21%	14.86%	10.98%	14.47%	8.85%
S&P 500 Index	4.30	18.54	10.42	14.19	10.71	14.70	8.75

CALENDAR YEAR PERFORMANCE

(NAV, total return)

	Inception Date	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
U.S. Equity Research Fund	Nov 30 1994	29.28%	13.30%	1.29%	15.99%	32.73%	12.21%	2.90%	10.23%	23.72%	-4.63%
S&P 500 Index		26.46	15.06	2.11	16.00	32.39	13.69	1.38	11.96	21.83	-4.38

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. Consider the investment objectives, risks, and charges and expenses carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, call 1-800-638-7780 or visit troweprice.com. Read it carefully. The Fund's total return figures reflect the reinvestment of dividends and capital gains, if any.
Prior to 1 July 2019, the name of the U.S. Equity Research Fund was the Capital Opportunity Fund.
As with all equity investments, this Fund's share price can fall because of weakness in the broad market, a particular industry, or specific holdings.
The fund(s) may have other share classes available that offer different investment minimums and fees. See the prospectus for details.

PERFORMANCE REVIEW

U.S. Stocks Rose in the Second Quarter
Domestic equity markets ended the quarter near record highs, although macroeconomic and geopolitical developments drove significant bouts of volatility during the period. After markets slumped in May, driven by Chinese and U.S. threats to ramp up tariffs on each other, stocks rebounded in June as the Federal Reserve signaled its willingness to cut interest rates if the economic outlook weakened. Equities were also boosted late in the period by renewed hopes that the U.S. and China could resolve their long-simmering trade dispute. Solid corporate earnings, albeit against tempered expectations, also supported stocks.

While trade signals fluctuated, economic data generally worsened as the quarter progressed. In early April, markets surged following reassuring reports on manufacturing activity in both the U.S. and China. Investors also reacted positively to strong jobs and retail sales data. Durable goods orders fell back sharply in the first two months of the quarter, however, and IHS Markit's composite survey of both U.S. manufacturing and service sector activity in May indicated the weakest growth in overall business activity in three years. May payroll increases fell far short of expectations, and consumers appeared to be growing less optimistic despite healthy wage gains, as the Conference Board's survey of June consumer confidence hit its lowest level in two years.

Industrials and Business Services
The industrials and business services sector was the largest contributor to relative performance due to stock selection.

- Not owning industrial conglomerate 3M added value as shares were down sharply after the company missed consensus estimates and guided down. Negative sentiment regarding a recently announced large acquisition of medical technology company Acelity also weighed on shares. We believe the stock is fully valued and see limited company-specific catalysts for upside revisions to consensus estimates.
- An overweight in global defense company Northrop Grumman contributed to relative performance as shares traded higher, driven by broad margin expansion across segments and an increase in the quarterly dividend. With the U.S. Defense budget likely at the beginning of a multi-year cyclical upturn, we believe Northrop Grumman and it's best-in-class management team stands to benefit as it is levered to many of the fastest-growing areas of the budget.
- An overweight in Harris, a leading provider of radio communications products, aided relative returns as the company recently reported strong organic growth and raised revenue guidance in each of its three divisions. We continue to like Harris for its differentiated technology and good management team. The company has taken steps to focus more on its core defense electronics franchises, which may drive higher growth and expand margins.

Utilities
Stock selection in the utilities sector also aided relative gains.

- An overweight in diversified infrastructure company Sempra Energy contributed to relative results. The company, along with many utility sector peers, benefited from increased expectations for a Federal Reserve interest rate cut, which would increase the attractiveness of the sector's hefty relative dividend payments. We see value in Sempra Energy's recent acquisition of transmission and distribution utility Oncor, as well as the company's progress in building a liquefied natural gas export terminal in Louisiana.
- An overweight in vertically integrated utility holding company NextEra Energy aided relative returns as its market-leading renewables business continued to perform well. The stock has also benefited from an attractive dividend. We believe the utility possesses an attractive combination of steady, low-risk growth potential through Florida Power & Light, one of the largest electric utilities in the U.S., and significant growth potential in contracted renewables and gas pipelines.
- An overweight in regulated water and wastewater services company American Water Works helped relative gains as shares outperformed on solid operational execution and investor preference for more defensive, less cyclical companies. We continue to like the company for its leading industry position and durable, highly visible earnings growth outlook that is driven by the poor state of water infrastructure in the U.S.

Health Care
Within the health care sector, stock selection detracted from relative performance.

- An overweight in biopharmaceutical firm Eli Lilly hurt relative value as the company missed estimates on key products, including diabetes drug Trulicity and Taltz, which treats psoriatic arthritis and plaque psoriasis. Trulicity suffered from reduced visibility but we believe the product is a key driver of revenue growth and margin expansion in the midterm. Additionally, we like the quality and diversity of Eli Lilly's portfolio, where the product mix is expected to move toward younger, higher-margin assets over the midterm.
- An overweight in surgical robotics company Intuitive Surgical detracted from relative performance as the company reported its worst quarterly results since early 2015. Negative headlines aside, we believe Intuitive Surgical is poised to continue dominating the nascent robotic surgery market.
- Not owning Illumina, which develops life science tools used in genetics analysis, weighed on relative performance as the company benefited from strong competitive advantage in the rapidly growing gene sequencing industry. We are underweight as we believe the stock is fully valued.

Energy
Stock selection in the energy sector also weighed on relative returns.

- Not owning independent oil and gas Exploration and Production company Anadarko Petroleum detracted from relative performance as shares of the company surged in April after the company accepted a buyout bid from Chevron then later rejected the bid and accepted a competing and higher offer from Occidental Petroleum. We remain underweight Anadarko Petroleum due to concerns about the company's rising operational and financial risks.
- An overweight in global energy exploration and production company Occidental Petroleum weighed on relative results. Shares fell as the firm pursued a debt-fueled takeover of Anadarko Petroleum. Although Occidental Petroleum offered a significant premium for the acquisition, we like the potential long-term synergies; the deal adds to the firm's already-significant acreage in the Permian Basin. A push by activist shareholders for the firm to delever, if successful, may further boost Occidental Petroleum's risk/reward profile.

- An overweight in oilfield services company Halliburton hurt relative performance. Shares were down due to weakness in the company's core pressure pumping market. We believe Halliburton should benefit from another OPEC production cut as lost production will be backfilled by U.S. shale. We also think the company has an opportunity to improve pricing amid a seasonal slowdown and a faltering demand environment.

PORTFOLIO POSITIONING AND ACTIVITY

The portfolio is managed by a team of approximately 30 equity research analysts, with capital allocated to each analyst in proportion to the weight of the stocks they follow within the S&P 500 Index. Each analyst makes buy and sell decisions and executes the trades within his or her coverage area. The analysts overweight the most attractive stocks, underweight the least attractive stocks, and opportunistically add high-conviction, nonindex securities from their coverage area.

Given the sector, industry and style-neutral position of the strategy, we would expect to generate the majority of our alpha from stock selection. The majority of the tracking error is due to stock-specific risk.

Significant Overweights

- Boeing is the world's largest aerospace company. We recognize that recent events involving the 737 MAX aircraft could create additional stock price volatility, in at least the near term. However, our general fundamental perspective on Boeing has not changed. Over the longer term, we continue to like the company for its duopoly position in global commercial aerospace, diversified product offering, and recent operational improvements.
- Facebook is the dominant social media platform globally, with massive amounts of data on users. In our view, Facebook's share of consumer time spent on mobile devices, coupled with its ad monetization and targeting capabilities, should help it generate advertising-led revenue growth over the next several years. We also like the company's opportunity to monetize Instagram and the WhatsApp messaging service's long-term potential.
- Roper Technologies is an acquisitive multi-industrial company with four reportable segments: Medical and Scientific Imaging, Radio Frequency Technology, Industrial Technology, and Energy Systems and Controls. The firm has a successful track record for acquiring companies with durable growth characteristics, particularly asset-light, high-margin businesses, which then drive significant earnings and free cash flow growth.
- Sempra Energy is a diversified infrastructure company that is levered to a variety of attractive long-cycle energy trends. In addition to having a strong history of capital allocation, Sempra Energy's management team has one of the best track records of cost-cutting among California utilities. We see value in Sempra Energy's recent acquisition of transmission and distribution utility Oncor, as well as the company's progress in building a liquefied natural gas export terminal in Louisiana.
- Symantec is a cyber security company that sells endpoint and network solutions and targets both the enterprise and consumer markets. We think Symantec's improving core enterprise product and go-to-market scale should drive sustainable growth. We also believe the company is undervalued by the market due to recent execution issues, and that the new management team will help to unlock shareholder value.

Significant Underweights

- Intel is the largest manufacturer of leading-edge processors and maintains a near monopoly in the PC and server markets with the best manufacturing capability in the industry. However, we have concerns over the declining PC business as well as competitive pressures facing the company's manufacturing and design for new chips. We prefer Microchip Technology.
- Chevron is an integrated energy company with upstream and downstream businesses. We have concerns about the company's higher exposure to oil than many of its peers, as well as capital expenditure flexibility and execution risks related to the company's project management track record. We prefer Total.
- Adobe Systems is a high-quality software business with a dominant market position in digital content creation. We think the company's growth rates will moderate significantly in 2019 as the benefits of its recent subscription transition wane and fundamentals normalize. The recent acquisition of Marketo highlights other strategic challenges within the company. We prefer VMware.
- Bank of America is a large U.S. money center bank. While we think management has done a good job improving returns and lowering the company's risk profile, we believe Bank of America's stock is reliant on exogenous factors, such as higher interest rates and economic growth, to drive future growth. We prefer Citigroup.
- Berkshire Hathaway is a large conglomerate run by founder Warren Buffett. We have concerns about its management succession plans and future growth of the company. We prefer Chubb within the insurance space.

Significant Purchases

- We increased our position in semiconductor chipmaker Qualcomm. Intel's exit from the 5G industry strengthened our conviction in Qualcomm as the leading 5G modem supplier. We think the improving industry structure and growth of 5G content growth could lead to high mobile unit sales and higher average selling prices over the longer-term.
- We increased our position in software-as-a-service provider Salesforce.com. We believe the announced acquisition of Tableau, a business analytics software company, helps Salesforce.com address increased demand for data analytics and visualization. With its leadership in Customer Relationship Management platform and ecosystem capabilities, we believe Salesforce.com is well positioned to benefit from the digital transformation trend in enterprise technology.
- Linde is a multinational chemical company formed by the merger of Linde AG of Germany and U.S. chemical company Praxair. We increased our position after the company announced solid quarterly results driven by improving foreign exchange headwinds. We see potential for longer-term margin improvement as CEO Steve Angel integrates the new strategic partnership and focuses on reducing costs.
- Applied Materials is the largest producer of semiconductor manufacturing equipment. We increased our position given its attractive valuation relative to peers. We think the company is poised to grow earnings and capture market share

proportionately amid the slowing of Moore's Law. Semiconductor capital equipment companies are key enablers of node transitions, which could provide a benefit to Applied Materials as soon as 2020 with the potential for increased capacity. We are optimistic in the near-term as inventories normalize after a trend of customers under-shipping end-market demand.

- We initiated a position in biopharmaceutical company AbbVie following decent initial launch trends for the plaque psoriasis drug, Skyrizi. We previously took a cautious stance given concerns around a single-payor health care system although we see a near-term opportunity as AbbVie's portfolio becomes more heavily weighted toward a new product mix.

Significant Sales

- We trimmed biopharmaceutical firm Eli Lilly because the company generates a high percentage of revenue from pharmaceuticals and we have concerns about the impact of a single-payor health care system scenario. We are also cautious around reduced growth visibility for the diabetes drug, Trulicity.
- We trimmed pharmaceutical company Pfizer on strength after its quarterly revenues beat expectations, driven by sales in emerging markets. We are optimistic about the company's lower relative exposure to U.S. pharmaceuticals but remain cautious given the potential for a single-payor health care system. We see topline and bottom-line growth potential in the midterm because Pfizer faces fewer risks from generics versus competitors, and mix improvements should help decrease costs.
- Texas Instruments is the largest manufacturer of analog semiconductors. We trimmed our position given our preference for Micron Technology. We are cautious in the near term after management recently guided down expectations for growth in the 5G communications segment.
- FedEx is a global parcel and expedited freight transportation provider that specializes in time-definite deliveries. We exited our position given our preference for UPS and J.B. Hunt Transport Services. Recent management turnover at FedEx raises concerns, and we also think the FedEx Express segment could experience lackluster margin improvement in the near term resulting from the challenging integration of the TNT Express acquisition.
- We opportunistically trimmed open source software provider Red Hat and eventually exited our position after its longtime partner, IBM, announced it would acquire Red Hat, with the sale likely to close in the third quarter of 2019. With its robust technology, services, sales, and distribution capabilities, IBM should reaccelerate Red Hat's impact within public and hybrid cloud initiatives.

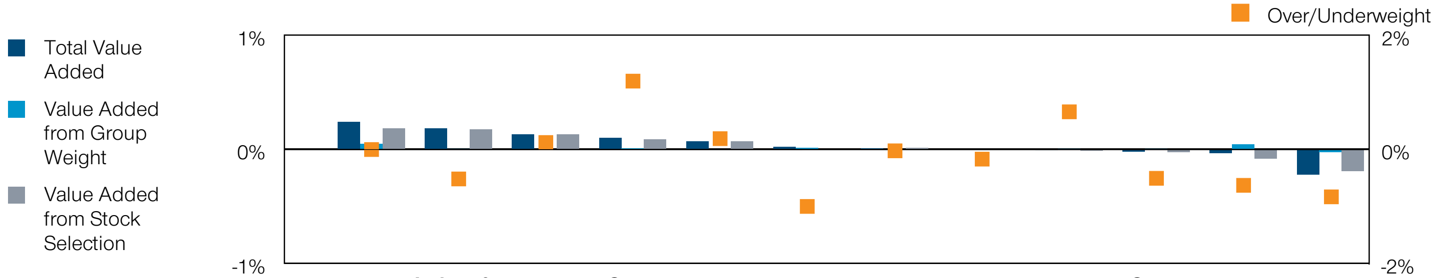
ORGANIZATIONAL UPDATE

Sadly, Ian McDonald passed away last quarter. His financials coverage is in transition. As of June 30, 2019, the U.S. Structured Research Equity Strategy has 29 participating analysts.

QUARTERLY ATTRIBUTION

SECTOR ATTRIBUTION DATA VS. S&P 500 INDEX

(3 months ended June 30, 2019)



	Total	Indust & Bus Svcs	Utilities	Con-sumer Disc	Info Tech	Real Es-tate	Finan-cials	Materi-als	Comm Svcs	Con-sumer Staples	Energy	Health Care
Over/Underweight	0.00%	-0.52%	0.12%	1.20%	0.19%	-1.00%	-0.02%	-0.17%	0.66%	-0.51%	-0.62%	-0.83%
Fund Performance	4.54	5.62	7.51	6.10	6.40	2.47	8.13	6.75	4.33	3.35	-4.52	-0.07
Index Performance	4.30	3.57	3.48	5.28	6.06	2.46	8.00	6.86	4.49	3.61	-2.83	1.38
Value Add - Group Weight	0.05	0.00	0.00	0.01	0.00	0.02	0.00	0.00	0.01	0.00	0.04	-0.02
Value Add - Stock Selection	0.19	0.18	0.13	0.09	0.07	0.00	0.02	0.00	-0.01	-0.02	-0.08	-0.19
Total Contribution	0.24	0.19	0.13	0.10	0.07	0.02	0.01	0.00	0.00	-0.02	-0.04	-0.22

TOP 5 RELATIVE CONTRIBUTORS VS. S&P 500 INDEX

(3 months ended June 30, 2019)

Security	% of Equities	Stock Return (%)	Net Contribution (Basis Points)
American International Group	0.7%	24.48%	10
Facebook	2.4	15.78	8
3M	0.0	-15.88	8
Intel	0.0	-10.27	7
Northrop Grumman	0.5	20.34	7

TOP 5 RELATIVE DETRACTORS VS. S&P 500 INDEX

(3 months ended June 30, 2019)

Security	% of Equities	Stock Return (%)	Net Contribution (Basis Points)
Walt Disney	0.6%	25.77%	-8
Qualcomm	0.6	34.47	-7
Lockheed Martin	0.0	21.85	-7
Adobe	0.0	10.57	-6
Eli Lilly	0.3	-14.12	-6

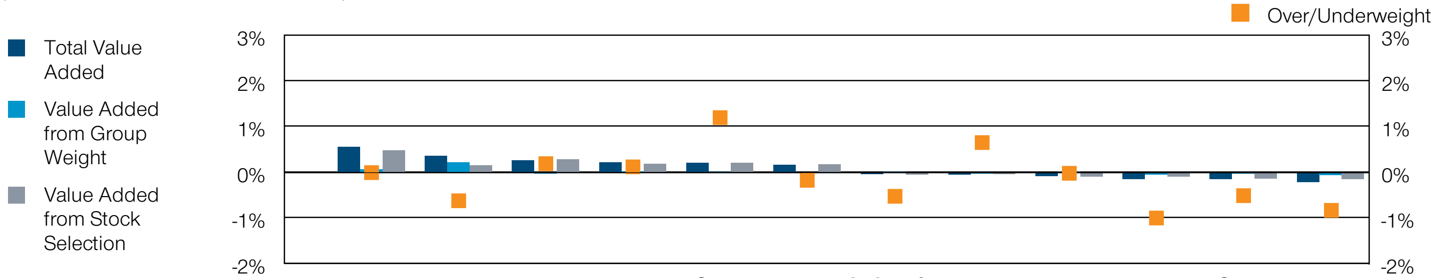
Net contribution is calculated versus a specific benchmark. It is the difference between the security's absolute contribution to the portfolio and the security's absolute contribution to the benchmark. This reflects the amount the security has impacted relative return.
Source: T. Rowe Price. Stock return reflects reinvestment of dividends and capital gains and is not representative of the Fund's performance.

Past performance is not a reliable indicator of future performance. Numbers may not total due to rounding; all other numbers are percentages. Analysis represents the total performance of the portfolio as calculated by the FactSet attribution model and is inclusive of other assets that will not receive a classification assignment in the detailed 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. Performance for each security is obtained in the local currency and, if necessary, is converted using an exchange rate determined by an independent third party. Figures are shown with gross dividends reinvested. Sources: Financial data and analytics provider FactSet. Copyright 2019 FactSet. All Rights Reserved. MSCI/S&P GICS Sectors; Analysis by T. Rowe Price Associates, Inc. T. Rowe Price uses the current MSCI/S&P Global Industry Classification Standard (GICS) for sector and industry reporting. T. Rowe Price will adhere to all updates to GICS for prospective reporting. Figures are shown gross of fees. Returns would be lower as a result of the deduction of such fees. Performance returns are in USD.

12-MONTH ATTRIBUTION

SECTOR ATTRIBUTION DATA VS. S&P 500 INDEX

(12 months ended June 30, 2019)



	Total	Energy	Info Tech	Utilities	Consumer Disc	Materials	Indust & Bus Svcs	Comm Svcs	Financials	Real Estate	Consumer Staples	Health Care
Over/Underweight	0.00%	-0.62%	0.19%	0.12%	1.20%	-0.17%	-0.52%	0.66%	-0.02%	-1.00%	-0.51%	-0.83%
Fund Performance	10.97	-10.70	19.72	25.62	13.30	10.65	10.26	3.94	5.83	11.45	13.81	11.78
Index Performance	10.42	-13.25	18.13	19.03	11.35	3.73	10.43	4.48	6.31	16.80	16.27	12.99
Value Add - Group Weight	0.07	0.21	-0.02	0.03	0.01	-0.01	0.01	-0.01	0.01	-0.05	-0.02	-0.07
Value Add - Stock Selection	0.49	0.15	0.29	0.20	0.20	0.18	-0.04	-0.03	-0.08	-0.09	-0.13	-0.15
Total Contribution	0.56	0.36	0.26	0.22	0.21	0.17	-0.03	-0.05	-0.08	-0.14	-0.15	-0.21

TOP 5 RELATIVE CONTRIBUTORS VS. S&P 500 INDEX

(12 months ended June 30, 2019)

Security	% of Equities	Stock Return (%)	Net Contribution (Basis Points)
Red Hat	0.0%	39.73%	18
Roper Technologies	0.7	33.38	15
Comcast, Special Class A	1.3	31.24	15
GE	0.7	-21.75	13
Liberty Broadband	0.4	37.64	13

TOP 5 RELATIVE DETRACTORS VS. S&P 500 INDEX

(12 months ended June 30, 2019)

Security	% of Equities	Stock Return (%)	Net Contribution (Basis Points)
NVIDIA	0.6%	-30.41%	-16
Qualcomm	0.6	39.97	-15
Electronic Arts	0.4	-28.19	-13
Berkshire Hathaway	1.2	14.21	-12
Adobe	0.0	20.85	-11

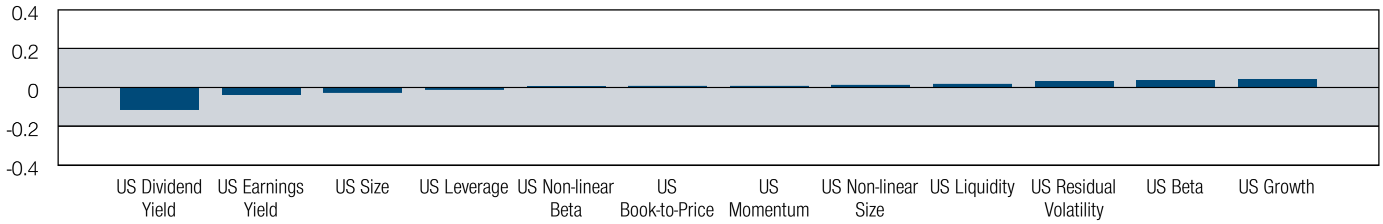
Net contribution is calculated versus a specific benchmark. It is the difference between the security's absolute contribution to the portfolio and the security's absolute contribution to the benchmark. This reflects the amount the security has impacted relative return.
Source: T. Rowe Price. Stock return reflects reinvestment of dividends and capital gains and is not representative of the Fund's performance.

Past performance is not a reliable indicator of future performance. Numbers may not total due to rounding; all other numbers are percentages. Analysis represents the total performance of the portfolio as calculated by the FactSet attribution model and is inclusive of other assets that will not receive a classification assignment in the detailed 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. Performance for each security is obtained in the local currency and, if necessary, is converted using an exchange rate determined by an independent third party. Figures are shown with gross dividends reinvested. Sources: Financial data and analytics provider FactSet. Copyright 2019 FactSet. All Rights Reserved. MSCI/S&P GICS Sectors; Analysis by T. Rowe Price Associates, Inc. T. Rowe Price uses the current MSCI/S&P Global Industry Classification Standard (GICS) for sector and industry reporting. T. Rowe Price will adhere to all updates to GICS for prospective reporting. Figures are shown gross of fees. Returns would be lower as a result of the deduction of such fees. Performance returns are in USD.

PORTFOLIO POSITIONING

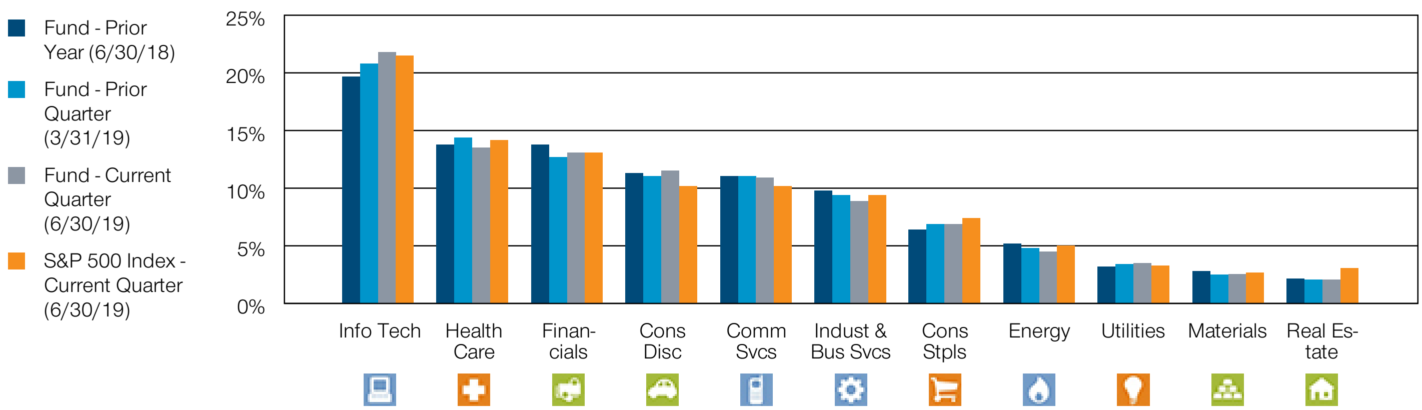
BARRA RISK FACTORS FOR U.S. EQUITY RESEARCH FUND

(Active Weights)



Risk exposures of less than 0.2 are not statistically significant.

SECTOR DIVERSIFICATION – CHANGES OVER TIME



LARGEST PURCHASES

Issuer	Sector	% of Fund Current Quarter 6/30/19	% of Fund Prior Quarter 3/31/19
Microsoft		4.4%	4.0%
Johnson & Johnson		1.8	1.7
Salesforce.com		0.8	0.4
Qualcomm		0.6	0.2
Linde		0.6	0.2
Applied Materials		0.6	0.2
UPS		0.5	0.3
AbbVie (N)		0.3	0.0
Elanco Animal Health		0.3	0.1
Intel (E)		0.0	0.1

LARGEST SALES

Issuer	Sector	% of Fund Current Quarter 6/30/19	% of Fund Prior Quarter 3/31/19
Johnson & Johnson		1.8%	1.7%
Pfizer		1.3	1.7
Eli Lilly		0.3	1.0
Celgene		0.2	0.3
Texas Instruments		0.1	0.5
Stericycle		0.1	0.3
Red Hat (E)		0.0	0.4
Intel (E)		0.0	0.1
FedEx (E)		0.0	0.3
Duke Energy (E)		0.0	0.2

(N) New Position
(E) Eliminated

HOLDINGS

MAJOR POSITION CHANGES

Issuer	Industry	% of Fund 6/30/19	% of Fund 3/31/19	Difference (%)
Qualcomm	Semicons & Semicon Equip	0.6%	0.2%	0.4%
Linde	Chemicals	0.6	0.2	0.4
Microsoft	Software	4.4	4.0	0.4
Salesforce.com	Software	0.8	0.4	0.4
Applied Materials	Semicons & Semicon Equip	0.6	0.2	0.4
Eli Lilly	Pharmaceuticals	0.3	1.0	-0.7
Texas Instruments	Semicons & Semicon Equip	0.1	0.5	-0.4
Pfizer	Pharmaceuticals	1.3	1.7	-0.4
Red Hat (E)	Software	0.0	0.4	-0.4
FedEx (E)	Air Freight & Logistics	0.0	0.3	-0.3

(N) New Position
(E) Eliminated
Major position changes are based on security purchases and sales as well as fluctuations in market value.

TOP 10 ISSUERS

Issuer	Industry	% of Fund	% of S&P 500 Index
Microsoft	Software	4.4%	4.2%
Amazon.com	Internet & Direct Marketing Retail	3.5	3.2
Apple	Technology Hardware, Storage & Peripherals	3.2	3.5
Alphabet	Interactive Media & Services	3.0	2.7
Facebook	Interactive Media & Services	2.4	1.9
Johnson & Johnson	Pharmaceuticals	1.8	1.5
JPMorgan Chase	Banks	1.6	1.5
Visa	IT Services	1.6	1.2
ExxonMobil	Oil, Gas & Consumable Fuels	1.4	1.3
Pfizer	Pharmaceuticals	1.3	1.0

TOP 5 OVER/UNDERWEIGHT POSITIONS VS. S&P 500 INDEX

Issuer	Industry	% of Fund	% of S&P 500 Index	Over/Underweight
Boeing	Aerospace & Defense	1.3%	0.8%	0.6%
Facebook	Interactive Media & Services	2.4	1.9	0.5
Roper Technologies	Industrial Conglomerates	0.7	0.2	0.5
Sempra Energy	Multi-Utilities	0.7	0.2	0.5
Symantec	Software	0.6	0.1	0.5
Intel	Semicons & Semicon Equip	0.0	0.9	-0.9
Chevron	Oil, Gas & Consumable Fuels	0.4	1.0	-0.6
Adobe	Software	0.0	0.6	-0.6
Bank of America	Banks	0.5	1.0	-0.6
Berkshire Hathaway	Diversified Financial Services	1.2	1.7	-0.5

INDUSTRY SPOTLIGHT

T. Rowe Price equity research analyst Jeff Holford manages investments in health care companies in the US Structured Research Equity Strategy (SRS). Specifically, he focuses on pharmaceuticals & biotechnology investments. Relative to other equity analysts, his sectors comprise a smaller number of stocks due to high barriers to entry, such as large research and development (R&D) budgets, specialized technology, and tightening FDA regulations, as well as recent industry consolidation. Another distinguishing aspect of Jeff's space is that most of his companies are global businesses.

There is a widely held assumption that an aging U.S. population with growing medical needs is beneficial for health care companies. However, as baby boomers are retiring, the percentage of taxpayers is reduced, creating a situation in which per capita contributions into health care programs are decreasing while the need for health care is increasing. This has created a renewed focus on controlling health care costs, specifically drug prices, which are perceived as easy to target due to patent expirations and the availability of generics. U.S. democrats hoping to challenge President Trump in the 2020 election cycle are already campaigning on the idea of a single-payer health care system, such as the proposed Medicare For All policy, in which the government would control the costs of health care services, drugs, and medical equipment.

Drug pricing faces additional pressure as multiple companies with similar products have created highly commoditized areas of the market and product classes in which there is little innovation gap. Jeff believes these factors have negatively affected profitability potential within the industry, and, as such, he generally seeks investments with more balanced exposure to U.S. pharmaceuticals. He looks for companies with unique technologies or products that he believes can bridge the innovation gap and push back against pricing pressures.

In determining which companies to invest in, Jeff evaluates the asset lives and structural mix of a company's product portfolio. Because pharmaceutical drugs are subject to patent expirations, a company's portfolio mix can drastically change over the course of a few years. Jeff considers the strength and duration of the company's current portfolio mix as well as the visibility of its pipeline in order to determine a weighted average P/E multiple from the various revenue streams. He also uses bottom-up margin forecasting to evaluate the profitability of each product, considering its manufacturing cost, the number of years until the product faces loss of exclusivity (LOE), and any royalty stacks or profit-sharing agreements. Evaluating the margins and asset lives across a company's entire product portfolio helps Jeff forecast how profitable the investment might be over the next two to five years. Lastly, because the health care sector is often used for defensive rotation, Jeff looks at a company's relative P/E valuation within the context of its historical range to evaluate when an investment is trading high or low relative to the cash flows it might drive.

Pfizer (PFE), which specializes in medicines, vaccines, and consumer health care, is the largest overweight position in Jeff's portfolio. He likes the company's relatively low multiple versus its peers and its diversified product mix, which he believes is underappreciated by the market. After more than a decade without any organic growth, Pfizer refocused its R&D efforts to a handful of therapeutic areas and has recently had several new drugs approved, with more expected through 2020. Jeff believes that the company's lower exposure to product LOEs driven by its young portfolio, combined with strong growth from in-line products and new or upcoming launches, could drive a positive inflection in growth through at least 2025.

Elanco (ELAN), which develops, manufactures, and markets products for companion and food animal health, is also an overweight in Jeff's portfolio. He likes the animal health industry's strong fundamentals, including positive demographic trends, a limited number of competitors with scale, relatively low-risk R&D, reduced impact from generics, and a predominately self-pay market. Within the space, Elanco runs on substantially lower operating margins than many of its major peers. This is partly due to its product mix, which has higher exposure to lower-margin Food Animal feed additives, but also a result of inefficiencies at the manufacturing level. Jeff expects substantial operating margin improvement as the mix improves and management drives efficiency and benefits from overall leverage of a growing sales base.

Johnson & Johnson (JNJ), which develops, manufactures, and sells pharmaceuticals, medical devices, and consumer health care products, also represents a top overweight in Jeff's portfolio. He likes that the company has less exposure to U.S. pharmaceuticals due to its medical devices and consumer divisions. The stock is trading below its average historical P/E relative range and Jeff recently added to his position on weakness due to investor concerns over the company's talc litigation as well as its involvement in the opioid crisis. While these headline risks may continue in the near term, Jeff is optimistic about Johnson & Johnson's track record of consistent growth and the strength of many of its leading pharmaceutical products.

Conversely, Merck (MRK), one of the largest pharmaceutical companies in the world, is a top underweight in Jeff's portfolio. He likes the company's strong fundamentals but has concerns over its high relative P/E multiple and product concentration onto Keytruda, a cancer drug with the best data in its class. Keytruda has driven much of the company's growth in the past few years and its patent is effective until 2028; however, it faces significant potential competitive risk given the number of other companies developing drugs in the oncology space. Additionally, Merck's pipeline is weaker than its peers, leaving it with few other revenue drivers if Keytruda's success is challenged by a competitor's cancer therapy.

Looking ahead, Jeff expects the next 12 to 18 months to be a challenging time to invest in the health care sector due to uncertainty surrounding the 2020 U.S. election cycle and health care reform. While the headline noise doesn't affect his fundamental view on his investments, companies within the sector tend to underperform when there are questions around pricing power. Jeff plans to continue investing in companies he believes have more balanced exposure to U.S. pharmaceuticals and those that support pricing in any environment. He will also look for opportunities where market uncertainty has led to companies with strong fundamental trading in the lower range of their historical relative P/E valuation range.

PORTFOLIO MANAGEMENT

Portfolio Manager:	Managed Fund Since:	Joined Firm:
Ann Holcomb	2015	1996
Jason Polun	2015	2003
Thomas Watson	2017	2007
Josh Nelson	2019	2007

Effective May 1, 2019, Josh Nelson assumed co-portfolio manager responsibilities for the Fund with the existing co-portfolio managers.

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