



QUARTERLY REVIEW

**Health Sciences Fund**

As of June 30, 2019

**PORTFOLIO HIGHLIGHTS**

The Health Sciences Fund outperformed the Lipper Health/Biotechnology Funds Index for the three-month period ended June 30, 2019.

Relative performance drivers (versus the Lipper Health/Biotechnology Funds Index):

- Stock selection within the pharmaceuticals subsector was the largest contributor to relative results during the period.
- An overweight exposure to life sciences, the benchmark's best-performing segment, generated a solid relative performance contribution.
- Stock selection in the biotechnology subsector detracted from relative results.

Additional highlights:

- While volatility will likely remain a feature of the health care sector in the near term, we believe the fundamental quality of companies will drive long-term performance.
- We remain encouraged by the level of innovation in therapeutics, and we are also selectively constructive on the products and devices segment, where newly developed devices enable less invasive, better-targeted interventional procedures.

**FUND INFORMATION**

Symbol	PRHSX
CUSIP	741480107
Inception Date of Fund	December 29, 1995
Benchmark	S&P 500 Index
Expense Information (as of the most recent Prospectus)	0.77%
Fiscal Year End	December 31
12B-1 Fee	-
Total Assets (all share classes)	\$13,208,946,945
Percent of Portfolio in Cash	-0.1%

**PERFORMANCE**

(NAV, total return)

	Three Months	Year-to-Date	One Year	Annualized			
				Three Years	Five Years	Ten Years	Fifteen Years
Health Sciences Fund	1.73%	17.50%	10.39%	14.22%	12.95%	20.23%	14.48%
Lipper Health/Biotechnology Funds Index	1.53	13.42	6.30	13.43	10.64	17.48	11.87
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
Health Sciences Fund	Dec 29 1995	32.17%	16.33%	11.01%	31.93%	51.40%	31.94%	12.98%	-10.35%	27.95%	1.23%
Lipper Health/Biotechnology Funds Index		24.74	11.86	9.30	23.91	51.33	30.61	8.55	-11.07	24.98	3.07
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](http://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](http://troweprice.com). Read it carefully.** The Fund's total return figures reflect the reinvestment of dividends and capital gains, if any. Due to the fund's concentration in health sciences companies, its share price will be more volatile than that of more diversified funds. Further, these firms are often dependent on government funding and regulation and are vulnerable to product liability lawsuits and competition from low-cost generic products. The fund(s) may have other share classes available that offer different investment minimums and fees. See the prospectus for details.

## PERFORMANCE REVIEW

### Health Care Stocks Lag the Broad Market in the Second Quarter

Stocks overcame a sharp pullback in May and recorded solid gains in the second quarter. The large-cap S&P 500 Index reached record highs and ended with its best start to the year in over two decades. Except for energy stocks, all sectors in the S&P 500 recorded absolute gains, led by financials. Materials and information technology stocks also performed well.

The Lipper Health/Biotechnology Funds Index posted positive returns, but the health care sector underperformed the broad market, as measured by the S&P 500 Index. Within the Lipper index, the pharmaceuticals segment declined, and the services and biotechnology subsectors posted modest gains. In aggregate, these three industries account for about three-quarters of the health care sector. Life sciences and products and devices were the best-performing segments of the benchmark. Overall, allocation decisions primarily drove the portfolio's relative outperformance in the quarter, while stock selection modestly detracted.

### Stock Selection in Pharmaceuticals Contributed to Relative Results

- Novartis reported strong sales and operating income growth for its fiscal first quarter. Business momentum was driven by the company's innovative drug segment behind strong sales of its immunology drug Cosentyx, cardiology drug Entresto, and cancer drug Lutathera. Management also raised its full-year 2019 operating income guidance. Shares received a further boost after Novartis presented data on Zolgensma, its novel gene therapy for spinal muscular atrophy, at the American Academy of Neurology in May that was well received.
- Shares of Pfizer rose modestly but outperformed the broader pharmaceuticals segment, which posted a negative return for the quarter. The company reported solid first-quarter results, helped by sales gains for its cardiovascular drug Eliquis, cancer drug Ibrance, cholesterol drug Lipitor, and angina and blood pressure medication Norvasc. We see top- and bottom-line growth potential in the midterm given Pfizer's lower exposure to product loss of exclusivities risks from generics, as well as mix improvements as management focuses on costs. Upcoming product launches, including Lyrica generics, could drive a positive inflection, with further contributions being made in areas such as capital deployment and business development.

### An Overweight to Life Sciences Added Value

Our overweight allocation, which is purely a function of our rigorous bottom-up stock selection process, generated a solid contribution to absolute and relative results in the three-month period.

- Bruker, a leading global supplier of high-value scientific and analytical instruments, is in the process of transforming its business. Its stock surged after the company reported solid first-quarter earnings, driven by organic growth gains in its Scientific Instruments and Energy & Supercon Technologies business segments.

### Stock Selection in Biotechnology Hurt Relative Results

- Array Biopharma is an oncology company that received U.S. Food and Drug Administration approval for a drug combination to treat BRAF-mutated melanoma in June 2018. During the second quarter, the company reported positive results for the same combination in Phase 3 for a subset of colorectal cancer, and Pfizer subsequently announced it would acquire the firm at a premium of more than 60%. While we had a stake in Array Biopharma, we were underweight relative to the benchmark, which detracted from relative performance. We think the transaction provides Pfizer with a drug combination with a long patent life, a durable royalty stream, a late preclinical portfolio of cancer compounds, and a world-class chemistry platform, which is unlikely to be replicable internally.

### The Services Segment Detracted Due to Stock Selection

- While the fundamental backdrop for managed care company Anthem has remained largely positive, shares of the company were weighed down in the quarter by "Medicare for all" fears. With the potential for increased political rhetoric around possible health care reform as we edge closer to the 2020 U.S. election cycle, we decided to trim our position in Anthem.

## PORTFOLIO POSITIONING AND ACTIVITY

We remain focused on positioning the portfolio around several core themes, including innovative therapies, products that produce material medical benefits, and businesses that provide cost-effective solutions.

### Pharmaceuticals

We maintained our overweight position in pharmaceuticals during the second quarter. Within this subsector, we generally favor companies that are developing novel therapeutics. During the quarter, we refined our positioning in large-cap companies, trimming in instances where recent strength had made the risk/reward balance less compelling and adding to names with favorable valuations, less daunting patent cliffs, and underappreciated development pipelines. Among our largest holdings, we favor Novartis, Pfizer, Merck, and Roche Holding. During the period, we significantly trimmed our stake in Eli Lilly.

### Life Sciences

Broadly speaking, the companies in this sector provide technologies that enable experimentation to occur. Although the life sciences industry represents the smallest absolute allocation in the portfolio, we are overweight the benchmark. Within the segment, we have core positions in Thermo Fisher Scientific, Danaher, and Agilent Technologies.

### Services

We remain underweight the services sector, which is a broad category that includes payors, providers, drug distributors, and health care IT companies. During the quarter, we continued to moderate our exposure to UnitedHealth Group, Anthem, Cigna, and Humana and now have a neutral managed care weighting relative to the benchmark.

### Biotechnology

The subsector represents our largest allocation within the portfolio, but we have a significant underweight versus the benchmark. We believe many of the best investments in health care will come from therapeutics companies; those that produce medicines that prevent disease, relieve symptoms, and provide cures. We think

that the discovery, development, manufacturing, and commercialization of medicines are drivers of long-term value within health care. During the quarter, we eliminated Celgene, which is being acquired by Bristol-Myers Squibb, and trimmed our stake in Alexion Pharmaceuticals. We added to our position in Ascendis Pharma, given our positive outlook for its long-acting TransCon hGH therapy for children with pediatric growth hormone deficiency.

### Products and Devices

Fundamentals for the sector remain strong, and we increased our allocation to products and devices makers during the quarter and at midyear had an overweight allocation relative to the benchmark. Our investments in the space focus on company-specific stories that we believe trade at reasonable valuations and offer a favorable risk/reward proposition. Our top holdings within the group at the end of the quarter included Intuitive Surgical, Becton, Dickinson & Company, and Hologic.

## MANAGER'S OUTLOOK

Health care innovation remains robust, and we believe that companies producing leading-edge therapeutics and medical devices offer some of the market's most attractive growth opportunities for investors with a long-term investment horizon. However, political rhetoric surrounding the sector is likely to increase as we move closer to the 2020 U.S. presidential election, which could lead to periods of increased uncertainty and heightened volatility.

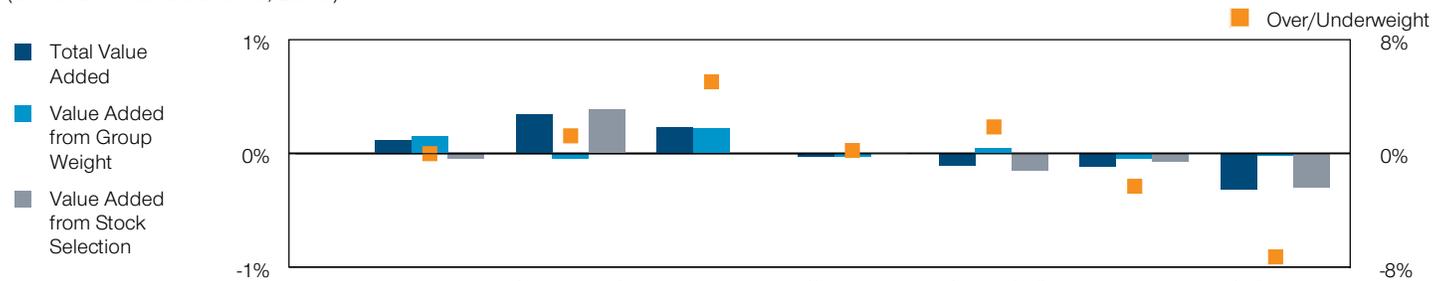
Regulatory worries weighed on the health care sector in the first half of 2019, but concerns about disruptive drug pricing reform have largely abated. The discussion related to punitive indexing of Medicare Part B drugs, including injectable drugs used to treat the elderly has substantially moderated. Concerns about a "Medicare for all" single-payer health care system have also started to fade with a buy-in or public option being endorsed by a majority of the viable Democratic presidential candidates. This has been widely viewed as a positive for Medicare Advantage-focused managed care companies. However, with health care affordability a top concern among voters, we expect substantial discussion from the presidential candidates on the issue, which could create volatility within the health care services segment.

As we expected, there has been an uptick in merger and acquisition activity in the biopharma space this year, as larger companies with ample cash on their balance sheets and access to cheap capital have looked to replenish their pipelines and improve their growth profiles. Even though we saw a sharp rebound in valuations for smaller-cap biotech companies over the first part of the year, we think the prospects for more deal-making, particularly around the areas of oncology, inflammation, and gene therapy, remain intact. While the health care sector faces heightened political risk as the 2020 election cycle approaches, our longer-term view on the sector remains positive because of tailwinds related to aging populations, continual clinical needs, and accelerating innovation. However, we believe investors need to be selective and focus on identifying companies with truly innovative drugs that are priced responsibly and lack competition and those offering cost-effective, quality health care services that can create value over the long term.

## QUARTERLY ATTRIBUTION

### SECTOR ATTRIBUTION DATA VS. LIPPER HEALTH/BIOTECHNOLOGY FUNDS INDEX

(3 months ended June 30, 2019)



	Total	Pharmaceuticals	Life Sciences	Consumer Nondurables	Products & Devices	Services	Biotechnology
Over/Underweight	0.00%	1.24%	5.05%	0.24%	1.86%	-2.29%	-7.24%
Fund Performance	1.90	-0.40	6.86	0.00	3.53	0.87	0.71
Index Performance	1.78	-3.05	6.79	0.00	4.40	1.22	1.80
Value Add - Group Weight	0.16	-0.04	0.23	-0.02	0.05	-0.04	-0.02
Value Add - Stock Selection	-0.04	0.38	0.00	0.00	-0.15	-0.07	-0.30
Total Contribution	0.12	0.35	0.23	-0.02	-0.10	-0.11	-0.31

### TOP 5 RELATIVE CONTRIBUTORS VS. LPR HEALTH/BIOTECH IX

(3 months ended June 30, 2019)

Security	% of Equities	Net Contribution (Basis Points)
Sage Therapeutics, Inc.	2.6%	21
Abbvie Inc.	0.2	19
Shockwave Medical Inc Lockup Shs Pp	0.4	17
Avantor, Inc.	0.6	17
Benefitfocus, Inc.	0.0	16

### TOP 5 RELATIVE DETRACTORS VS. LPR HEALTH/BIOTECH IX

(3 months ended June 30, 2019)

Security	% of Equities	Net Contribution (Basis Points)
Array Biopharma Inc.	0.2%	-35
Boston Scientific Corporation	0.0	-33
Intuitive Surgical, Inc.	4.7	-27
Eli Lilly And Company	1.1	-15
Agilent Technologies, Inc.	1.9	-9

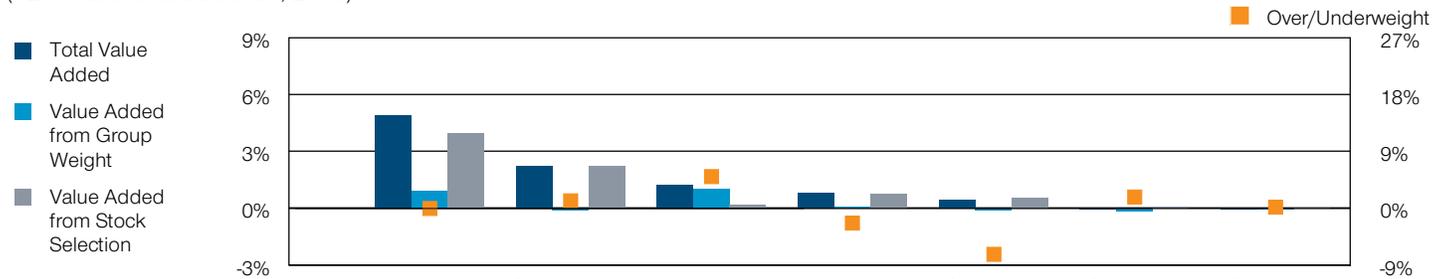
Net contribution is calculated versus a specific benchmark. It is the difference between the security's absolute contribution to the portfolio and the security's absolute contribution to the benchmark. This reflects the amount the security has impacted relative return.

**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. Analysis by T. Rowe Price Associates, Inc. T. Rowe Price uses a custom structure for sector and industry reporting for this product. 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. LIPPER HEALTH/BIOTECHNOLOGY FUNDS INDEX

(12 months ended June 30, 2019)



	Total	Pharmaceuti- cals	Life Sciences	Services	Biotechnol- ogy	Products & Devices	Consumer Nondurables
Over/Underweight	0.00%	1.24%	5.05%	-2.29%	-7.24%	1.86%	0.24%
Fund Performance	10.98	14.74	35.71	5.73	2.79	18.01	0.00
Index Performance	6.06	-1.53	33.17	2.75	1.23	17.36	0.00
Value Add - Group Weight	0.95	-0.06	1.04	0.07	-0.08	-0.12	-0.02
Value Add - Stock Selection	3.97	2.27	0.17	0.74	0.57	0.10	0.00
Total Contribution	4.92	2.21	1.21	0.81	0.49	-0.02	-0.02

### TOP 5 RELATIVE CONTRIBUTORS VS. LPR HEALTH/BIOTECH IX

(12 months ended June 30, 2019)

Security	% of Equities	Net Contribution (Basis Points)
Merck & Co., Inc.	1.4%	67
Thermo Fisher Scientific Inc.	3.6	55
Danaher Corporation	2.2	35
Heron Therapeutics, Inc.	0.0	33
Cooper Companies, Inc.	0.9	29

### TOP 5 RELATIVE DETRACTORS VS. LPR HEALTH/BIOTECH IX

(12 months ended June 30, 2019)

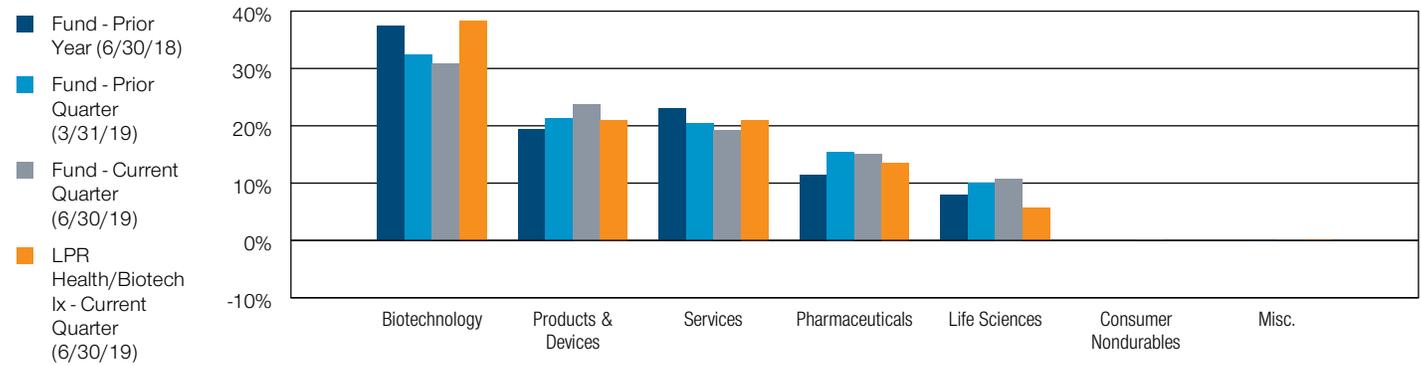
Security	% of Equities	Net Contribution (Basis Points)
Boston Scientific Corporation	0.0%	-84
Array Biopharma Inc.	0.2	-52
Abbott Laboratories	0.0	-38
Neurocrine Biosciences, Inc.	0.9	-21
Immunomedics, Inc.	0.2	-20

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.

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## PORTFOLIO POSITIONING

### SECTOR DIVERSIFICATION – CHANGES OVER TIME



### LARGEST PURCHASES

Issuer	Sector	% of Fund Current Quarter 6/30/19	% of Fund Prior Quarter 3/31/19
Novartis	Pharmaceuticals	1.9%	1.8%
AstraZeneca	Pharmaceuticals	1.5	1.3
Amgen	Biotechnology	1.2	0.9
Bristol-Myers Squibb	Pharmaceuticals	1.2	0.7
Regeneron Pharmaceuticals	Biotechnology	1.2	1.5
Ascendis Pharma	Biotechnology	1.1	1.0
Dexcom	Products & Devices	0.7	0.4
Alcon (N)	Products & Devices	0.7	0.0
Avantor (N)	Products & Devices	0.6	0.0
Novocure	Biotechnology	0.6	0.4

(N) New Position

(E) Eliminated

(NE) New Position Eliminated

### LARGEST SALES

Issuer	Sector	% of Fund Current Quarter 6/30/19	% of Fund Prior Quarter 3/31/19
UnitedHealth Group	Services	5.8%	6.5%
Anthem	Services	2.5	2.9
Cigna	Services	1.9	2.2
Regeneron Pharmaceuticals	Biotechnology	1.2	1.5
Eli Lilly	Pharmaceuticals	1.1	2.2
BioMarin Pharmaceutical	Biotechnology	0.7	0.9
Ionis Pharmaceuticals	Biotechnology	0.4	0.7
Array BioPharma	Biotechnology	0.1	0.6
Celgene (E)	Biotechnology	0.0	1.0
Takeda Pharmaceutical (NE)	Pharmaceuticals	0.0	0.0

## HOLDINGS

### TOP 10 ISSUERS

Issuer	Industry	% of Fund	% of LPR Health/Biotech Ix
UnitedHealth Group	Payors	5.8%	6.4%
Intuitive Surgical	Implants	4.7	1.9
Becton, Dickinson & Company	Implants	4.7	3.3
Vertex Pharmaceuticals	Major Biotechnology	3.7	3.4
Thermo Fisher Scientific	Life Sciences	3.6	2.0
Stryker	Implants	2.9	2.0
Pfizer	Major Pharmaceuticals	2.9	1.2
SAGE Therapeutics	Other Biotechnology	2.6	1.0
Anthem	Payors	2.5	1.1
Danaher	Life Sciences	2.2	1.3

### TOP 5 OVER/UNDERWEIGHT POSITIONS VS. LPR HEALTH/BIO TECH IX

Issuer	Industry	% of Fund	% of LPR Health/Bio tech Ix	Over/Underweight
Intuitive Surgical	Implants	4.7%	1.9%	2.9%
Pfizer	Major Pharmaceuticals	2.9	1.2	1.7
Thermo Fisher Scientific	Life Sciences	3.6	2.0	1.6
SAGE Therapeutics	Other Biotechnology	2.6	1.0	1.6
Novartis	Major Pharmaceuticals	1.9	0.4	1.5
Boston Scientific	Implants	0.0	3.0	-3.0
Array BioPharma	Major Biotechnology	0.1	2.1	-2.1
Gilead Sciences	Major Biotechnology	0.0	2.0	-2.0
AbbVie	Major Pharmaceuticals	0.0	1.9	-1.9
Amgen	Major Biotechnology	1.2	2.7	-1.5

## PORTFOLIO MANAGEMENT



**Portfolio Manager:**  
Ziad Bakri

**Managed Fund Since:**  
2016

**Joined Firm:**  
2011

## Additional Disclosures

Source for Lipper data: Lipper Inc.

Lipper Data (excluding Performance and Risk Return exhibits) is estimated by T. Rowe Price based on information provided by Lipper, Inc., and LionShares. T. Rowe Price identifies the funds that compose the Lipper index and builds an aggregate portfolio for the index based on each fund's holdings as provided by LionShares. Please note that the portfolio holdings for each fund within the index are based on the most recent public information that is available, and since the funds have different reporting periods, some of this information may not be current.

Source for S&P data: S&P. "Standard & Poor's®", "S&P®", "S&P 500®", "Standard & Poor's 500", and "500" are trademarks of Standard & Poor's, and have been licensed for use by T. Rowe Price. The fund is not sponsored, endorsed, sold or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the fund.

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The information shown does not reflect any Exchange Traded Funds (ETFs) that may be held in the portfolio.

T. Rowe Price uses a custom structure for sector and industry reporting for this product.

Diversification exhibits may not add to 100% due to exclusion or inclusion of cash.

Certain numbers in this report may not equal stated totals due to rounding. Unless otherwise stated, data is as of the report date.

Unless indicated otherwise the source of all data is T. Rowe Price.

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