

T. Rowe Price US Large Cap Growth Equity

North America

Introduction

The fund typically holds 60 - 75 companies and is benchmarked against the Russell 1000 Growth Index. It takes a high conviction approach whereby the team are seeking companies with high-quality earnings streams, strong free cash flow growth and shareholder-oriented management. They are long term investors and portfolio turnover has averaged between 40% and 70% annually.



[Click here to read the T. Rowe Price approach to ESG investing.](#)

Why RSMR Rate this Fund

- Strong team of US based analysts with excellent access to company management teams
- Excellent long-term track record since the fund launched in 2001
- Energetic manager who is focused on identifying 'secular winners on the right side of change

Fund Process

The first step of the investment process is to screen the universe of approximately 500 companies with market caps over USD\$8bn. A number of analytical tools are used such as Factset, MSCI Barra, and the Wilshire Atlas system which help to identify rapidly growing large-cap investment candidates within the universe. This high-level screening process will typically narrow the universe down to 150 to 200 companies and then fundamental analysis will be conducted by the global analysts.

An analyst's scrutiny of a potential investment begins with an evaluation of the company's income statement, balance sheet, and statement of cash flows, as well as discounted cash flow analysis and ratio analysis. They will assess the industry landscape and how well the company is positioned to capitalise on potential growth prospects. Company meetings are an integral part of the research process, and these can take a variety of forms including on-site visits, conference calls and face-to-face meetings. When the research process is complete, the analyst rates each stock on a proprietary scale of 1 (strong buy) to 5 (strong sell) and recommends whether to buy, hold or sell the stock. These rankings are stored on a database, along with detailed descriptions that include the analyst rationale for the stock rating and the relevant analysis of the company.

In terms of portfolio construction, the fundamental research and recommendations conducted by the analysts will list between 80 and 120 investment candidates. From this list, the members of the portfolio management team identify the most compelling, highest conviction ideas over a three-year time horizon. Position size is a function of the conviction in a company's ability to deliver long-term, double-digit growth. There is no absolute maximum position size. Individual portfolio holdings will typically be $\pm 5\%$ of their relative weighting in the Russell 1000 Growth Index at time of purchase with the sector weights generally expected to be within $\pm 15\%$ the Index. The top 10 names will typically make up 30% to 40% of the fund and the top 20 will typically make up 50% to 60%. Industry and sector allocations are a residual of the bottom-up stock selection while cash is generally less than 5%. The managers prefer to 'let the winners run' as long as fundamentals remain strong, and valuations are justifiable.

Evaluation

Generally, the fund has outperformed when stock prices follow earnings growth more directly or when market leadership is broad. It may underperform when the market rewards more defensive mega-cap stocks exhibiting below average earnings growth as these companies have a disproportionate impact on the index returns. The fund tends to find more investment opportunities in sectors such as information technology, healthcare and consumer discretionary and have less exposure to slower growth areas of the market such as utilities.

Application

A large number of funds in the sector are benchmarked against the S&P 500 rather than the Russell 1000 Growth fund. The sector compositions are quite different, making this fund suitable for investors seeking a higher growth option within the US market.

Our Opinion

This fund has performed well compared to its sector over the long term. A key competitive advantage is the depth of the analytical resource at T.Rowe whereby wider coverage allows the sector-specific analysts to focus on 30 to 40 companies each, frequently conducting on-site visits and company management meetings as part of their due diligence process. Over the long term, the outperformance has been generated at volatility and maximum drawdown levels which are marginally higher than the benchmark but generally in line with the peer-group average, highlighting superior risk-adjusted returns.

**Important Notice**

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