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T. Rowe Price logs another quarter of outflows

Firm cuts costs, leans into ETFs as it keeps eyes open for M&A

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T. Rowe Price has begun to implement several cost-savings measures, including staff and footprint reductions, to mitigate steep outflows over the last quarter and with an eye toward returning to a path of organic growth in 2025.

The $1.4trn Baltimore-based firm will keep its eyes open for M&A despite the downturn in, and lean into into bolstering its ETF line-up particularly within core thematics and ESG after doubling down on its roster earlier this year.

"We think there's a long way to go there. It's early days, and I would say for us, the momentum has really just started to build," Rob Sharps, CEO and president, told analysts on its Q2 earnings call.

Execs noted the firm has ample liquidity to support both its seed capital program and potential M&A. The firm is currently evaluating strategic opportunities, hinting at more pick-ups in the alternatives space on the heels of a full integration of Oak Hill Advisors, which the firm nabbed in 2021

"There isn't anything that is imminent right now but this is an active time in the industry from a consolidation perspective," said Sharps.

The firm characterized its recordkeeping business as "healthy," seeing wins with advisors that specialize in retirement and recordkeeping for small and mid-sized businesses. The DCIO story is more mixed.

"It is an area where we were very well represented in large cap growth and we have had some terminations from plans as a result of performance in that channel and that has put some pressure on close," said Sharps.

US equities drove the majority of the outflows and the firm is seeing performance-related lower sales and elevated redemptions, execs suggesting there is a lag, particularly in the institutional channel but also the US wealth channel, between elevated performance YTD and flows as investors weigh three- and five-year numbers.

The downturn has resulted in increased available capacity, triggering the reopening of some longtime soft-closed funds, and the firm will consider future opportunities to reopen previously closed strategies and stimulate future sales and net flows.

Expense management

In the face of steep outflows, the firm is putting into place several cost-cutting initiatives to manage expenses.

Last week, the firm eliminated approximately 2% of its existing positions globally, with minimal impacts to the investment divisions.

"We have also slowed the pace of hiring and headcount growth by closing select open positions across the firm," said CFO of T. Rowe Price Jennifer Dardis who added the firm is expecting headcount will be modestly higher by year-end compared to the beginning of 2023.

T. Rowe is also evaluating its real estate footprint, despite building a brand-new Baltimore campus in 2022, with the objective of slowing occupancy and facilities expense growth and saving $200m.

"We can put the company on a path back to organic growth at some point in 2025," said Sharps.

Flows and performance

T. Rowe Price's AUM increased from $1.34trn in Q1 to $1.4trn this quarter, up from $1.31trn a year ago.

The firm's adjusted operating margin clocked in at 36.8%, slightly increased from 34.1% in Q1 and down from $38% a year ago.

This quarter, the firm continued to suffer outflows of $20bn, primarily driven by performance-related lower sales and elevated client redemptions, up significantly from $16.1bn in outflows Q1 and from 14.7bn over the same quarter of last year.

Outflows were largely concentrated in equity strategies and US intermediary channels. The firm saw wins within its TDF business, with inflows of $2.4bn.

T. Rowe Price's institutional channel saw significant outflows of $12.2bn this quarter, compared to $5.4bn in Q1 and $900m a year ago. Despite outflows on the retail side as well, the bleeding abated, the firm seeing $7.8bn in outflows compared to $10.7bn last quarter and $13.8bn in 2Q22.

The firm's mutual funds shed $13.7bn in Q2, slightly better from staggering $14.2bn in Q1, according to Morningstar Direct. US equity products led the outflows of $12.7bn this quarter, and sector equity and municipal bond each lost $1bn and $688m, respectively.

In contrast, ETF only took $41m this quarter, mostly attributable to the $53bn T. Rowe Price Capital Appreciation Equity ETF (PRWCX) that gathered $53m.