T. ROWE PRICE REPORT

» A Perspective On Financial Topics For Our Investors

Issue No. 112 Summer 2011

Seeing Through the Volatility

If bull markets are said to climb a wall of worry, then U.S. stocks began this year by scaling a tower of shocks—shrugging off revolutions in the Middle East and North Africa, the devastating earthquake and tsunami in Japan, and rising oil and commodity prices to rack up the best first quarter since 1998 for the S&P 500 index of large-cap U.S. equities.

But beginning in late April, a slew of risks finally got the better of global equities: inflation and credit tightening in emerging markets, the developed world's unresolved fiscal crises, a downgrading of the outlook for U.S. debt and a turn for the worse in U.S. economic data, the ending of the second round of monetary stimulus known as QE2, and slowing global growth.

The S&P 500 index fell for six straight weeks but sharply rebounded in the last week of the second quarter to turn in a 6.02% gain year-to-date. International stocks, as measured by the MSCI All Country World Ex-U.S. Index, registered a 4.11% gain. With interest rates reaching historic lows, the Barclays Capital Global Aggregate Bond Index returned 4.38%.

The timing of this spring's market downturn and many of its underlying causes echoed the sharp U.S. market fall around the same time last year—a correction that did not end the U.S. economic recovery or what had been the strongest market recovery since the Great Depression.

Similarly, T. Rowe Price's chief economist and many equity managers say global markets could continue to be rocky through the summer, but the modestly paced global economic recovery is intact and stocks could resume rising later this year.

Alan Levenson, the firm's chief economist, has lowered his forecast for growth in the U.S. real gross domestic product (GDP) this year to 2.8%, but that still implies a higher growth rate in the second half.

Mr. Levenson remains "reasonably optimistic" about the U.S. economy. "Things were cut so lean during the recession that we now have a base to sustain growth, and the risk of a relapse into a recession is very low," he says. "Nevertheless, this is a very disappointing recovery after such a deep recession, and it's one that's going to be choppy."

As at the start of this year, a stark contrast persists between deep economic worries and healthy corporate balance sheets. Global corporate earnings have more than doubled since the end of 2009, though their growth rate is slowing. (See chart on page 2.)

"There's a lot of short-term bad news out there but corporate

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America is in great shape financially," says Brian Rogers, T. Rowe Price chairman and chief investment officer. "Companies are growing earnings, buying back stock, and increasing dividends. They have a lot of excess capital right now, their debt levels are very low, and their valuations are very reasonable."

In this challenging environment, T. Rowe Price asset allocation funds are favoring stocks over bonds and large-cap stocks over small-cap stocks, and they are neutral on U.S. stocks versus international stocks.

With interest rates bottoming after an almost three-decade decline and the Federal Reserve expected to start raising rates late next year, fixed income managers anticipate more modest bond returns. Managers generally are shortening the maturity structures of their portfolios in developed markets and favoring emerging market bonds abroad, particularly corporate bonds denominated in U.S. dollars and sovereigns in local currencies.

Given today's challenges, "it's easy to forget how far global markets have come in the last two and half years," says Scott Berg, manager of the Global Large-Cap Stock Fund. "When you look at the world today, it's in far better shape than was contemplated during the depths of the financial crisis.

"I would be surprised if markets aren't higher in 12 to 18 months absent some major events. Very often it's when the headlines are scary that the more positive returns come."

Growth Driver

Global growth is slowing, but emerging markets are expected to remain a key driver of equity returns around the world. The growth rate gap between the developing and developed worlds may even widen.

Emerging markets' equity returns have been poor this year, but managers say inflation may be peaking this summer in China and certain other developing nations, and these countries may be in their final stages of credit tightening to fight overheated growth. That could be favorable for their economies, which account for two-thirds of all global GDP growth.

"China actually has been tightening for a year and a half and is probably in the seventh inning of that," says Gonzalo Pángaro, manager of the Emerging Markets Stock Fund. "Overall, I am more optimistic now about emerging markets. Commodity prices have come down, inflation likely will moderate as a result of slower developed world growth, and valuations have become attractive."

A wide range of T. Rowe Price managers continue to invest in a long-term theme: stocks that could benefit from the rapid rise of middle-class consumers in the developing world. In parts of China, for example, wage growth is running 15% a year, and the government is trying to shift emphasis from export manufacturing to spawning more domestic consumption.

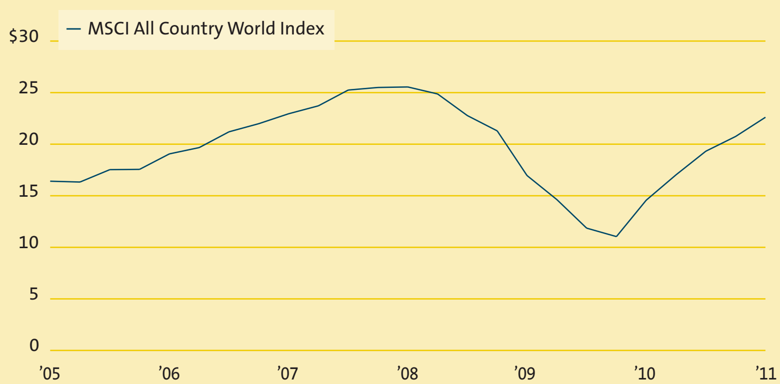
Bob Smith, manager of the International Stock Fund, is investing in that trend both within emerging and developed markets. The fund is overweight direct investments in emerging markets but even more keyed to emerging market growth when the sources of corporate revenues are taken into account. In Europe, for example, he owns various stocks—from a Swiss luxury retailer to Swedish engineering firms—that derive significant revenues from emerging markets.

"This strategy is not without risk," Mr. Smith says. "Could China have a hard landing? Yes. Could Brazil mess up its inflation issue? Yes. But in general, we expect emerging markets to continue to grow faster than European and U.S. markets, and that will be reflected in stock prices."

U.S. Impact

Emerging markets' more rapid growth resonates all the way to certain U.S. stock sectors, such as industrials and technology. For example, less than 10% of the Growth Stock Fund is directly invested abroad, but Rob Bartolo, its manager, estimates that more than 30% of the portfolio's revenues come from emerging markets.

The Global Recovery in Corporate Earnings
Quarterly Operating Earnings Per Share, Through March 2011



Sources: Data provided by FactSet and Morgan Stanley Capital International.
The MSCI All Country World Index is designed to measure the market performance of 24 developed and 21 emerging market country indices.

Both Mr. Bartolo and Jeff Rottinghaus, manager of the U.S. Large-Cap Core Fund, are overweight U.S. industrials selling high-tech products in emerging markets. "You can get a lot of exposure to the global economy from these companies," Mr. Bartolo says.

Mr. Rottinghaus particularly likes certain U.S. industrial conglomerates that operate globally and have operating leverage as a result of restructuring during the financial crisis that could produce higher margins and cash flows.

Information technology, also tied to emerging market growth, is the largest sector in both of their funds and is an area in which David Eiswert, manager of the Global Technology Fund, foresees a "fantastic period of disruption and global market expansion that is simply historic."

He says this assertion is based on the intersection of technological change—particularly the growth of mobile and cloud computing—and rapid adoption of these technologies by the growing middle class in emerging markets. This implies strong growth for top U.S. tech companies that are among global tech leaders, he says.

"Five hundred million new consumers are coming to market for consumer electronics in the near future—that's a potential 50% increase in the global market that's not reflected in the sector's valuations," Mr. Eiswert says.

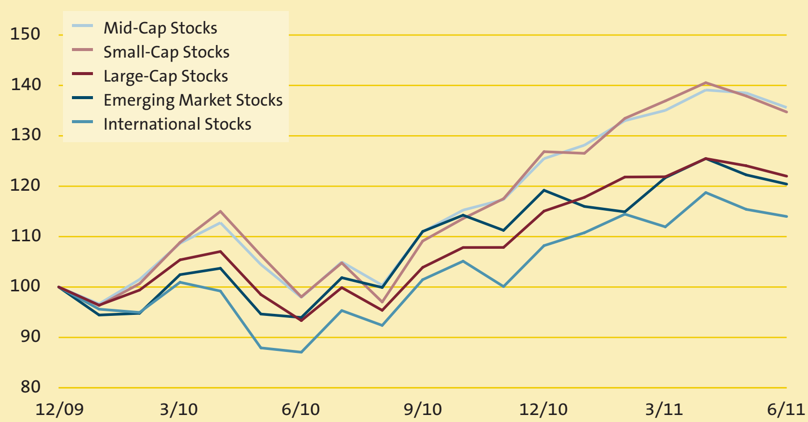
Of course, the sector most aligned with emerging markets has been natural resources. Oil and commodity prices essentially are set by the marginal demand in emerging markets, which use an increasing share of these resources. So far this year, changes in perceptions of risks to Chinese economic growth sent oil prices spiking and then plummeting.

Tim Parker, manager of the New Era Fund, which invests in natural resources, foresees this volatility continuing, with oil prices perhaps falling more before rising again around the end of this year and then reaching "untenable levels" in coming years.

For now, that means Mr. Parker has avoided "chasing oil prices" by shifting his portfolio's energy exposure toward major oil companies that have dividends and share buybacks and also toward natural gas, which has lagged oil. But longer term, he says, oil prices are on an upward curve with emerging market demand rising and global production pressed to keep up.

U.S. and International Stock Market Performance

Total Return for Various Stock Indices, Indexed to 100 as of December 31, 2009



Returns are based on performance of the S&P 500, Russell 2000, Russell Midcap, MSCI EAFE (international developed markets), and MSCI Emerging Market indices. Sources: T. Rowe Price and RIMES Technologies.

Large-Caps Favored

U.S. equity managers are strongly favoring large-cap stocks based on their relatively attractive valuations, though there is dispersion as to sectors of interest.

"I'm finding better risk/reward than two months ago, particularly in energy and industrials stocks," says David Giroux, manager of the Capital Appreciation Fund, who recently raised the multi-asset class fund's stock allocation. A quarter of the fund is invested in stocks that could benefit from mergers or acquisitions—a stronger possibility with interest rates so low.

In this uncertain environment, some managers are wary of financial stocks, but they represent the largest sector in the Equity Income Fund, managed by Mr. Rogers. "Some financials have done incredibly well since the financial crisis," he says. "Most banks are totally liquid and well capitalized. Credit is improving."

Given the focus on emerging markets, even in the U.S. market, it may be somewhat surprising to note that health care, with a strong domestic orientation, was the best-performing S&P 500 sector in the first half of this year. With a 13.9% return, it also outpaced global and regional emerging market indexes.

But T. Rowe Price managers also vary in their outlook for this sector. Even Kris Jenner, manager of the Health Sciences Fund, says that, absent strong leadership from prominent large-cap stocks, its market leadership has been "derivative"—a function of the sector's stable earnings relative to the slowdown in earnings growth for the rest of the S&P 500 index.

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Market Outlook

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While Mr. Jenner is optimistic that health care's outperformance may continue, he says he's in a "waiting game" to see if the large-cap, well-known health care companies can develop significant products that could drive outperformance in 2012 and beyond.

Finding value among U.S. mid- and small-cap stocks may also become more of a waiting game as they finally showed signs of yielding their long tenure of market leadership to U.S. large-caps in the second quarter. But large-caps still trailed mid- and small-caps for the first half of the year. (See chart on page 3.)

"On a relative valuation basis, large-caps today are much more attractive than mid- or small-caps," says Brian Berghuis, manager of the Mid-Cap Growth Fund, who has pared consumer stocks in anticipation of more muted growth and a period of "market consolidation."

Greg McCrickard, manager of the Small-Cap Stock Fund, adds that, while he has not turned defensive, he has been paying "extra attention to finding good values—reasonably priced stocks."

Bond Markets

Historically low bond yields have challenged income-oriented investors. Many may have sought higher yields by taking on more risk, but relatively low yields in U.S. corporate and high yield bonds also have made them less attractive than in recent years. (See page 5 for more on taxable and tax-free high yield sectors.)

Steve Huber, manager of the Strategic Income Fund, a global multi-sector bond portfolio, recommends shorter-duration portfolios—unless economic weakness lasts longer than expected.

"Our view is that, over 12 to 18 months, rates will be higher, but the path to higher rates depends on the economic recovery and is uncertain," he says. "We expect more modest fixed income returns than in the recent past. If the economy deteriorates, investors may earn bond coupon rates. But in a stronger economy, it's hard to envision rates staying so low."

Mr. Huber favors floating rate bank loans (variable rate debt that resets quarterly, thus mitigating interest rate risk) and emerging market local currency bonds (which could benefit from anticipated currency appreciation against the U.S. dollar over the long term).

Another potential bright spot is emerging market corporate bonds. Their improving fundamentals mirror many of the arguments for emerging market equities over the long term. Mike Conelius, manager of the Emerging Markets Bond Fund, now has roughly 25% to 30% of the fund in corporate bonds, more than double their share just five years ago.

"Over the last decade, we've reaped the benefits of emerging market sovereigns as these countries matured," he says. "Now the outlook for emerging corporate bonds is similarly improving, giving you the opportunity to extend these gains by taking a more targeted view in a country or even a sector."

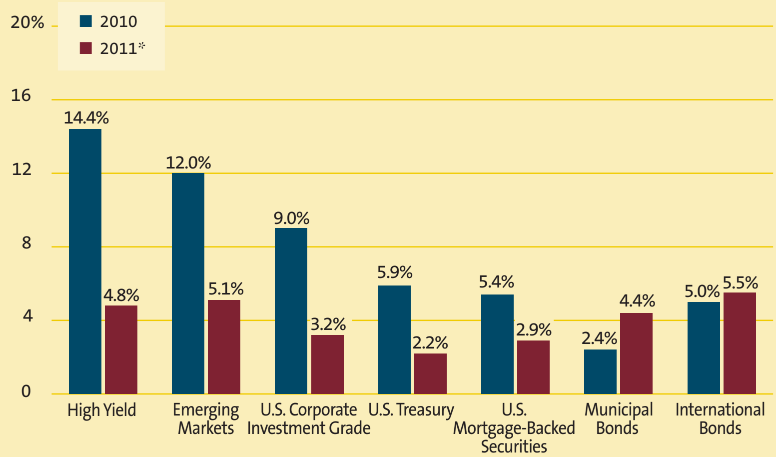
Still, despite the risks in global equity markets, T. Rowe Price is overweighting stocks relative to bonds in its asset allocation portfolios.

"The bond market is a tough place to find places to deploy capital right now," Mr. Rogers says. "With overall bond yields so low, investors over any reasonable period of time should do much better in equities."

Investing in stocks involves market risk, and there are additional risks from investing in specific sectors such as technology or health care, including earnings disappointments and product obsolescence. International investing involves market risk and risks associated with unfavorable currency exchange rates and political or economic conditions abroad. Investments in emerging markets are subject to the risk of abrupt and severe price declines. Bond investing is subject to interest rate and credit risk, and floating rate bonds are more volatile than higher-quality bonds.

Low Interest Rates, But Bond Returns Still Favorable

Total Returns by Sector, 2010 and 2011*



*Through June 30

Sources: Barclays Capital, J.P. Morgan, and Credit Suisse.

High Yield Bond Options in a Low Interest Rate Environment

With interest rates remaining at historically low levels and the Federal Reserve's monetary policy still in a holding pattern, income-oriented investors have found attractive yields hard to come by.

Those willing to assume greater credit and interest rate risk to boost their portfolio income might consider adding high yield bonds.

Lower-quality taxable and tax-exempt issues offer a considerable yield advantage over higher-quality bonds with comparable maturity but could suffer greater principal loss if the economy weakens further.

High Yield Bonds

This year, taxable "junk bond" yields fell to historically low levels (below 7%), and their yield advantage over investment-grade bonds narrowed significantly. Nevertheless, the Credit Suisse High Yield Index provided a 5.65-percentage-point yield premium over five-year Treasury bonds at midyear. Unlike Treasuries, of course, high yield bonds are not guaranteed for payment of principal or interest.

Mark Vaselkiv, manager of the High Yield Fund, says one reason yields have declined is that the default rate has trended lower and is expected to be just 1% this year—compared with a long-term average of 4.4%. Also, the number of credit upgrades relative to downgrades has been at an all-time high.

"Many high yield companies have improved their balance sheets by refinancing their existing debt with lower-coupon bonds," Mr. Vaselkiv says. "They have also been able to extend the debt's maturity dates, which reduces the chance of a default."

High yield bonds could decline in a rising interest rate environment, but they tend to be less sensitive to interest rates than higher-quality bonds because of their higher yields and relatively shorter duration (a measure of a fund's sensitivity to changes in interest rates).

Nevertheless, Mr. Vaselkiv cautions investors that the low level of interest rates and an economic slowdown pose potential threats. He also notes that the high yield market returned 85% from the end of 2008 through June 30, 2011.

Tax-Exempt Bonds

The municipal bond market has rebounded somewhat after suffering a sharp sell-off last fall and earlier this year, sparked by an unexpected rise in Treasury yields and a surge in new issuance, both of which have since declined.

While relative yields are slightly less attractive than earlier in the year, lower-quality, tax-exempt bonds were yielding around 6% in June—equivalent to about a 9% yield on a taxable bond for an investor in a 35% federal tax bracket. Long-term AAA rated munis were yielding about 4.35%.

Credit concerns in the municipal bond market have risen due to the fiscal squeeze and longer-term pension and other employee benefit obligations facing state and local governments.

However, many funds investing in lower-quality tax-exempt bonds typically favor revenue bonds backed by the tax-exempt projects they finance rather than general obligation bonds dependent on tax revenues.

Relying on the firm's extensive credit research, James Murphy, manager of the Tax-Free High Yield Fund, says almost a quarter of the fund's assets are invested in industrial development and pollution control revenue bonds backed by financially sound corporations.

"The balance sheet health of corporations has rarely been stronger," he says.

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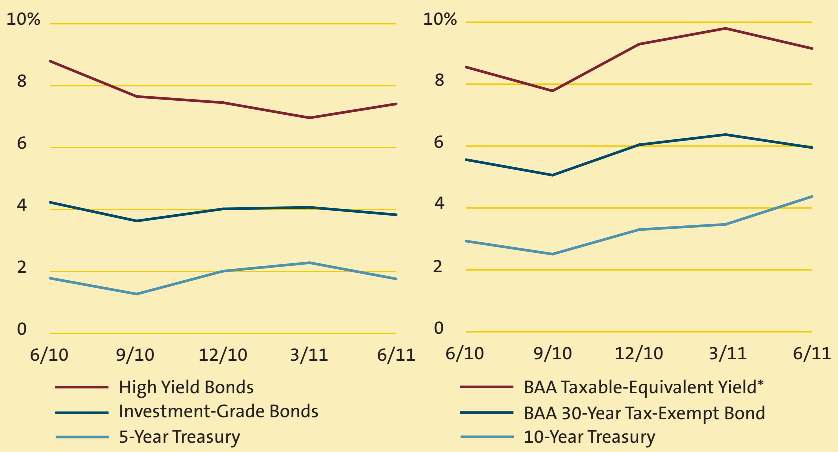
The Allure of High Yield Bonds

Taxable Bond Yields | Tax-Exempt Bond Yields



*Based on a 35% federal tax rate.

Sources: T. Rowe Price, Municipal Market Data, Credit Suisse, Barclays Capital, and Bloomberg. Lower-quality, high yield bonds offer a significant yield advantage over Treasury issues and investment-grade bonds. For the chart at right comparing tax-exempt municipal and taxable bond yields, the taxable-equivalent yield for municipals (the top line) assumes a 35% federal tax rate and no state taxes. State taxes could apply to out-of-state issued tax-exempt bonds. Interest earned on U.S. Treasuries is exempt from state taxation.

U.S. Expansion Will Stay on Track, Bumps and All

By Alan Levenson, T. Rowe Price Chief Economist

The U.S. economy crossed the threshold separating the recovery and expansion phases of the growth cycle when real gross domestic product (GDP) surpassed its pre-recession peak in the first quarter of this year. With annualized second-quarter growth estimated at 2.5%, the rebound from the 2008–2009 recession completed its second year at the end of June.

Despite recent headlines, this anniversary is not without causes for celebration. The growth trend weathered February's oil supply shock, when political unrest in Libya sparked a seven-week, 20% jump in oil prices, and the disruption of global supply chains emanating from natural disasters in Japan in March. In part, this resilience reflects the lean position the economy had succumbed to during the recession.

Business capital spending had reached near-historic lows relative to depreciation of existing assets, housing starts had fallen 75% from their 2006 peak to a pace 50% below long-term demand, and household financial retrenchment had raised the personal saving rate from a 1% to 2% range in 2005–2007 to 5.5% to 6.0%. Low levels of investment spending and a moderate pace of consumer deleveraging during the downturn minimized the risk of a double-dip return to recession during the recovery.

More significantly, a self-sustaining expansion had already taken hold. Business fixed investment is leading the rebound, with a replacement cycle under way to satisfy pent-up demand. Consumer spending is growing moderately, in line with income, with the saving rate now at a more appropriate level. Exports are growing strongly, and housing is no longer a drag on the economy.

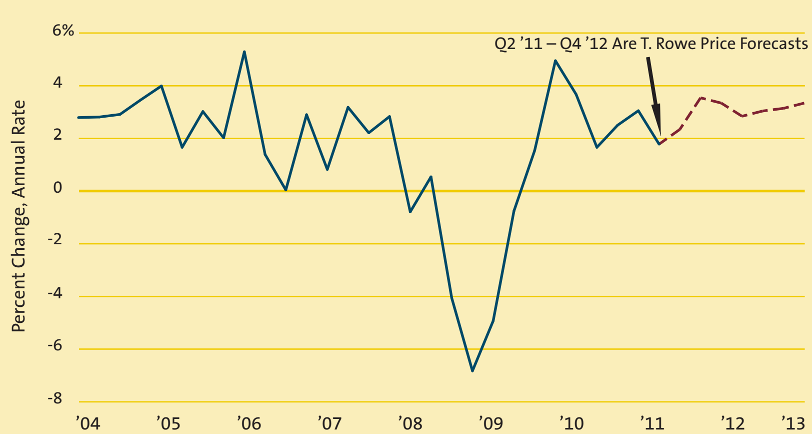
Moreover, the gradually improving pace of job growth creates a virtuous circle linking income, demand, production, and employment. With gas and food price pressures moderating, and as Japan-based supply disruptions ease, we expect real GDP growth to rebound from roughly 2.0% in the first half of the year to 3.5% in the second half and to proceed at a 3.25% pace next year.

This forecast recognizes two lingering restraints that help explain why growth over the last two years (estimated 2.8% annual rate) has been only half of what would normally be expected after a 4% peak-to-trough decline. Housing is no longer contracting, but it has not added the 1.0 to 1.5 percentage points to growth that would be typical. An unprecedented vacancy overhang short-circuited this contribution. Similarly, cutbacks by state and local governments, where procyclical spending increases are the rule, are also weighing on aggregate demand.

Greater Inflation Propensities

The economy's supply potential is also impaired in the wake of a deep

Real Gross Domestic Product



Sources: Bureau of Economic Analysis, Haver Analytics, and T. Rowe Price.

High Yield Bond Options

Continued from page 5

The fund also has significant holdings in hospital revenue bonds. "Their finances look historically healthy," Mr. Murphy says, "but there is concern over potential cuts in reimbursement rates in federal (Medicare) and state (Medicaid) health programs."

Higher-yielding tax-exempt bonds typically have less credit risk than their taxable "junk" bond counterparts, but they also have longer duration, thus posing greater potential risk to principal if interest rates rise.

Some income from tax-exempt bonds may be subject to state and local taxes and the federal alternative minimum tax.

recession. Deep cuts in business investment mean that the business capital stock is older and less up to date than would otherwise be the case, reducing the sustainable rate of productivity growth.

In addition, labor market dislocations—an excess of construction workers in the wake of the housing bust, skills-eroding spells of long-term unemployment, and reduced mobility of job seekers who cannot afford to sell their homes—mean that the so-called natural rate of unemployment has increased. We think it is closer to 7% than to the 5% pre-recession benchmark.

Against this backdrop, a moderate 3% recovery in demand is sufficient to reduce slack in labor, product, and housing markets and to set underlying inflation on a rising trend. Even excluding the global commodity market-driven increases in food and energy costs, year-to-year inflation in the core consumer price index (CPI) has risen from a low of 0.6% last October to 1.6% in June.

Moderating commodity price pressure should reduce headline CPI inflation from about 3.0% this year to 2.4% next year, but core inflation will continue to climb—to 1.7% by the end of this year and toward 2% over the course of next year.

As the economy continues to heal, the Fed will prepare to reduce the extent of monetary accommodation that is currently in place. We believe that the recently completed six-month, $600 billion program of Treasury securities purchases (QE2) will be the last of the Fed's "credit easing" efforts and that it will begin to allow its balance sheet to shrink with the repayment of principal later this year.

Early next year the Fed will begin to issue longer-term instruments to replace banks' reserve deposits, thereby reducing liquidity in the banking system. We expect the first interest rate hike late in 2012 and possibly not until early 2013.

Risks in the Outlook

If undisturbed, the U.S. rebound should continue to gain traction. Unfortunately, there are several factors at work that could interrupt the constructive internal dynamic.

Domestically, policymakers at midyear were still negotiating an increase in the debt ceiling to avoid a "technical default"—nonpayment of any legally mandated obligation. Such an outcome could undermine market confidence in policymakers' ability to address the more intractable issues underlying our unsustainable long-term budget deficit.

At the same time, of course, a credible, if at first broadly drawn, multiyear plan to rein in the deficit could help the economy, with enhanced market confidence in the sustainability of U.S. government finances bolstering the dollar as global assets flow into U.S. markets.

Looking abroad, fast-moving events in the euro area could spin out of governments' control. A full-blown banking crisis, while perhaps not the most likely outcome, could throw Europe into another recession, with significant impact on the U.S. economy.

In many emerging market economies, meanwhile, too-easy monetary policy is causing inflation and overheating asset markets. The risk in policy tightening is possible economic hard landings; falling asset markets and product demand could dampen the U.S. outlook.

Finally, upheaval in oil-producing countries in the Middle East and North Africa is likely to stoke continued volatility in oil prices.

A Slow, Bumpy Ride

We are confident that the U.S. economy will stay on an expansion track this year and next, with the unemployment rate falling from 9.2% currently to 7.5% by the end of 2012.

Yet it bears emphasizing that growth in the aftermath of a financial crisis is likely to be not only slow relative to the recession that preceded it, but also uneven, giving the flow of economic data the feel of a misfiring, out-of-tune car. This pattern of expansion is likely to prevail even under the best of outcomes relating to the current risks.

Consumer Price Index

Sources: Bureau of Labor Statistics, Haver Analytics, and T. Rowe Price.

Agriculture Stocks Blossom Amid Growing Food Demand

The numbers are startling: By 2050, the world's population is projected to rise from almost seven billion today to more than nine billion, according to the United Nations. In the same period, total food demand will increase by about 70%.

While this spike in population and food demand may seem overwhelming, the most difficult part of the equation comes from declining rates of growth in crop yields—for everything from wheat and corn to soybeans and rice. The annual growth rate for such yields has slowed from about 3% in 1960 to now just 1%.

This increasing imbalance between the world's growing appetite and its ability to feed itself is in part responsible for soaring crop prices, up by an average of almost 100% since the end of 2005. Higher crop prices often translate to increased food costs—which disproportionately hurt emerging market households that spend about 30% of their income on food (versus 8% for American households).

At the same time, rising prices and the pressure to increase crop yields present investment opportunities—which have drawn some T. Rowe Price portfolio managers to invest in stocks of companies producing materials related to raising crop yields, such as fertilizer, irrigation systems, and seed.

"There is a durable bull case for many agricultural stocks based on the fact that the world's population is growing and they're hungry," says Tim Parker, manager of the New Era Fund. "Consuming more meat also requires a greater proportion of grain, which puts upward pressure on prices. It's as simple as that."

Food's New Normal

However, investing in agriculture isn't simple, partly because stocks within the sector are often volatile. Indeed, some agriculture prices dipped in the second quarter, and Mr. Parker says that corn prices, for example, could decline in the months ahead.

But, he notes, relief from rising prices is likely to be temporary. "We are seeing a new normal that's higher than the old normal," he says. "We may still see price fluctuations associated with changing weather patterns or geopolitical tensions, but the long-term trend for the price of food staples is higher."

Joe Milano, manager of the New America Growth Fund, adds: "We've got a fixed amount of fertile land in this world to grow food. And the demand for that food is growing at a faster rate now that the developing world is starting to migrate up the chain, so to speak, from eating grains to eating meat."

Indeed, calorie consumption throughout the world has risen dramatically in recent years, and many more developing countries have greater access to meat, dairy, and fats. Within the next 40 years, these richer foods are projected to make up about 29% of all calories consumed among those living in emerging markets, up from about 20% in 2000, according to the United Nations.

That might not seem like a big increase, but meat production would need to double between now and 2050 to meet demand.

Focus on Fertilizer

At the end of the second quarter, about 4.6% of the New Era Fund was invested in agriculture stocks as part of the fund's focus on natural resource companies. Within that sector, Mr. Parker is particularly focused on fertilizer companies.

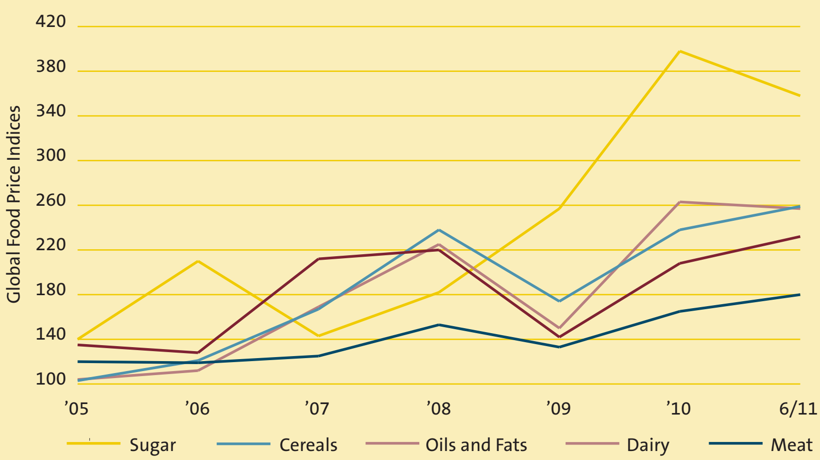
"The yields in the United States are two, three, five times those of the developing world," he says. "If countries like China, India, and Brazil hope to make greater progress, they have to improve their soil conditions, which requires fertilizer."

One of the New Era Fund's largest holdings is Potash Corporation of Saskatchewan, a global producer of potash, which contains potassium, one of the three primary plant nutrients (along with nitrogen and phosphate).

Mr. Parker calls the potash business an oligopoly because global potash

Global Food Prices Soaring

Food Prices Average 100% Rise Since 2005



Source: Food and Agriculture Organization of the United Nations, which calculates the global food price indices from the average prices of each set of commodities.

supply is controlled by relatively few companies. He says Potash Corp. owns vast resources and has strong management and solid earnings.

Mr. Parker also holds Mosaic, the world's largest phosphate producer and second-largest potash producer. Mosaic has strong volume and price growth, he says, and it has made recent improvements in its management structure as it begins to break away from privately held Cargill.

Seed, Water, Technology

Investing in the push to raise crop yields involves a far wider set of stocks than just those of fertilizer companies.

Monsanto, a seed company, is an example. Mr. Parker says it has promising products in the pipeline. Monsanto recently generated industry praise with the release of its long-awaited "Refuge-in-a-Bag" seed product for corn crops, which includes anti-insect chemicals and weed control properties.

Several T. Rowe Price fund managers also have invested in companies that produce irrigation systems. Water is a nonrenewable resource because most of it cannot be replenished. Rainwater, for example, can be harvested for drinking or even agricultural use, but it cannot be reused. Nor can the aquifers that lie deep in the earth and are tapped by farmers and homeowners.

The largest U.S. aquifer, the Ogallala Aquifer, sits under eight western states, and it provides almost one-third of the nation's groundwater used for irrigation, says Ben Landy, a natural resource analyst. "But at the current pace, the aquifer could be depleted in as little as 25 years," he says.

While it may be impractical to invest in aquifers, it is possible to buy shares of companies that make water use more efficient. Two of these include Valmont Industries and Lindsay, which produce center-pivot irrigation systems that hang above crops.

Mr. Milano owns both companies and includes Potash Corp. and Monsanto among his largest holdings. "If you can make the fixed amount of land more productive, the equation can work and we can feed the world," he says. "Companies like Monsanto, Potash, and Valmont all speak to this theme of driving productivity."

Industrials and technology companies also present ways to invest in agriculture. Preston Athey, manager of the Small-Cap Value Fund, owns shares of Raven Industries. This industrials conglomerate makes global positioning satellite systems, which help farmers plant seed in the right place at the right time to maximize yield.

Similarly, Brian Berghuis, manager of the Mid-Cap Growth Fund, has invested in Trimble Navigation, which makes survey instruments for tractors that help farmers position crops to produce higher yields.

Many of these agriculture-related stocks have had a strong run in recent years, with the S&P Global Agribusiness Equity Index outperforming the S&P 500 index since the end of 2008. (See chart below.)

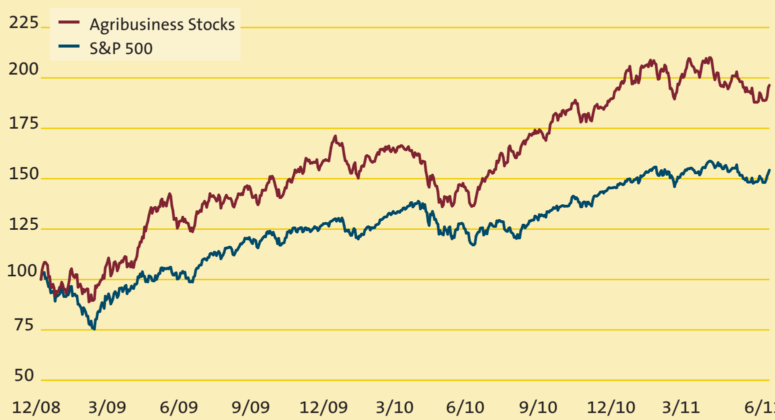
Given these gains, agriculture stocks could falter during certain periods, and companies could underperform market expectations. However, the long-term drivers of agricultural stocks remain intact, Mr. Milano says.

"It's a long-term theme featuring periods of volatility, so I try to ignore the noise in between and stay focused on the big picture," he says. "I'm still very bullish."

Stocks mentioned in this article make up 3.2% of the New Era Fund, 6.4% of the New America Growth Fund, 1.6% of the Small-Cap Value Fund, and 1.0% of the Mid-Cap Growth Fund as of June 30, 2011. Because of the cyclical nature of natural resource companies, their stock prices and rates of earnings growth may follow an irregular path.

Global Agribusiness Stocks Outpace S&P 500

Performance of Agriculture Stocks Versus the S&P 500 From December 31, 2008, Through June 30, 2011
Indexed to 100



Note: Agriculture stocks represented by the S&P Global Agribusiness Equity Index.
Source: T. Rowe Price.

Balancing Risks and Opportunities in U.S. Stocks

Despite myriad challenges at home and abroad, the U.S. stock market got off to a solid start this year but faltered in the second quarter as economic news turned troublesome. Joe Milano, manager of the New America Growth Fund, discusses the market environment and outlook and his current strategy.

Q. After a good start, the stock market hit a rough patch this spring. How do you view the current backdrop for equity markets?

A. I have a more balanced view of the world versus my bullish stance over the last couple of years. The market has shown some resilience this year, and there are reasons for optimism. The risks associated with the financial crisis are receding from the headlines, and earnings growth is still very strong.

The consumer has somewhat recovered and the industrials sector of most global economies has also recovered. I expect the U.S. economy to grow in the 2% to 3% range this year and in 2012 partly because a big chunk of the economy—nonresidential construction—has just started to grow.

However, the employment picture has worsened recently; the European debt problems remain unresolved and are back in the headlines; there have been problems with supply chains in manufacturing after the tsunami in Japan; China is experiencing wage inflation and energy shortages; and, perhaps most troubling of all, small business optimism in the U.S. is falling. Small businesses do a lot of spending, so when they are not optimistic, such spending can be significantly cut back, and that undermines the potential for employment.

Q. The surge in corporate profits has helped fuel the market recovery. Do you expect that momentum to be sustained?

A. They won't continue to grow at the rate they have recently, but if the economy continues to chug along at a 2% to 3% rate, earnings growth should certainly be better than that—in the 10% range, plus or minus, which is pretty good.

The key is finding companies that have pricing power and avoiding those that don't. That will be the big distinction as commodity inflation actually starts to be reflected in companies' income statements. You're going to see that in 2011 and 2012 more so than you did in 2009 or 2010 just because of the lag effect that some commodity prices have on companies.

Q. How do you view stock market valuations now?

A. The market doesn't feel overly cheap, but it doesn't feel expensive either. The larger the company, the cheaper the valuations look, and the smaller companies look a bit expensive.

Now, to the extent that the market continues to focus on growth, which it may throughout this year, the market will value companies with more growth potential at higher [price/earnings] multiples, and so it does make some sense that small- and mid-cap companies should be somewhat more expensive. But, overall, valuation looks OK.

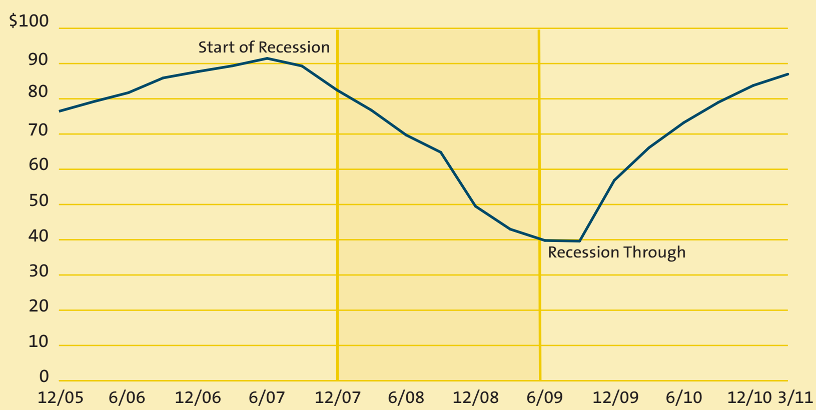
Investment Strategy

Q. Information technology accounts for almost 30% of the fund's assets. Why such a significant overweighting relative to the S&P 500 index?

A. Technology is a broad area, encompassing software, communications, companies that tap into mobile markets, and services companies. But the basic theme is that technology is a driver of productivity. Just about every company I talk to is focused on driving productivity.

S&P 500 Earnings Stage a Strong Recovery

Trailing 12-Month Operating Earnings Per Share, Shown Quarterly



Source: Data provided by Strategas Research Partners.

Companies that enable mobile devices, for example, drive productivity. The reason that everybody carries around iPhones and Blackberries is because they're productivity enhancers. So I'm attracted to companies that tap into that market, such as Qualcomm or Apple, software companies that can improve workflow and productivity, and companies like Adobe that make software that enable Web designers to work better and faster and quicker.

On top of that, there are new markets in tablets and smartphones. Cloud computing is opening up brand new markets for technology companies. So there's a lot of innovation and the companies, generally speaking, are pretty attractively valued.

Q. Apple is the fund's largest holding. How do you assess its future growth prospects?

A. Its future still looks good, and it really comes down to a bet on innovation and three key tenets. One is that the company still has surprisingly very low market share in the PC market. Most people who buy a Mac are happy with it, so there's a potential market share gain story in the PC market because that market probably won't grow all that much overall.

The second is the iPhone, the smartphone market where Apple has a killer product. Everybody else is chasing the company, but it seems unlikely that somebody is going to catch Apple because they're tying us in with iTunes, the app store—a really good strategy around the smartphone market—so Apple should gain share there.

The third is this new tablet market that Apple created. Others will take some share of that market, but it's sort of Apple's to lose. So within those three pillars, I think Apple has headroom to grow for at least another couple of years.

And, interestingly, Apple is not a very expensive stock.

Q. Health care is your second-largest sector. Where do you see the best opportunities for growth there?

A. Health care underperformed in 2009 and 2010 more than expected, largely because it turned out to be a little more cyclical and it followed the trends of unemployment. As people lost jobs and their COBRA benefits ran out, many stopped going to see their doctors; so utilization of health care went down and that affected the fundamentals of most health care companies.

My bet is that this year, and increasingly into 2012, we'll see the opposite of that. Unemployment is now falling a bit and there is pent-up demand. For example, women need to see their doctors for certain tests every year. Last year that declined, which is highly unusual.

So I expect to see improving utilization, driving better and better fundamentals. It might be the only sector of the economy that's still improving, and it will be against pretty easy comparisons because last year was just not a good year for most health care companies. Also, to the extent that we are concerned about commodity input inflation, which I am, health care is one area that is not so affected by that.

Q. What are some companies that you think are well positioned to take advantage of those trends?

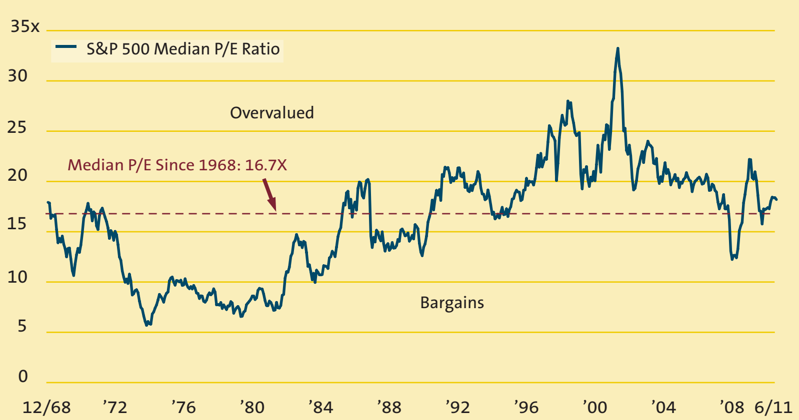
A. LabCorp of America and Quest Diagnostics, its biggest competitor, basically perform various tests, such as blood tests, genetic tests, Pap smears, etc. So as utilization of health care improves, LabCorp will see its volumes rise. It's one of these fixed-cost businesses with service centers around the country. So when things pick up, it really helps them.

Covance is a clinical research organization that runs clinical trials for small biotechs and mid-size and large pharmaceutical companies.

Almost every large pharmaceutical company in the world is in the process of trying to cut costs and restructure as most of their drugs are coming off patent over the next five to 10 years. As they try to slim down and refocus, they will outsource more. So companies like Covance should be big beneficiaries of that.

U.S. Stock Market Valuation

The chart shows the S&P 500 Stock Index's median price/earnings ratio from December 31, 1968, to June 30, 2011. Earnings are based on the prior 12 months.



Source: Ned Davis Research.

Continued on page 12

Continued from page 11

Q. The industrials sector has significantly outperformed the broader market over the past couple of years. How are you playing that sector?

A. We've been shifting our focus to industrials that tend to do well in the latter stages of a recovery, such as non-residential construction. This includes the building of strip malls, hospitals, power plants, and refineries—things that don't necessarily happen at the beginning of an expansion because companies don't want to spend big money until they get one or two or three years into an expansion.

So I'm buying companies like Cooper Industries, where 40% of its revenues are not growing now because they're tied to nonresidential spending. United Technologies also taps into that theme.

Investment Outlook

Q. Since the market bottom in March 2009, the S&P 500 has more than doubled in value, and small- and mid-cap stocks have done much better than that. What are the keys to the continuation of this bull market?

A. The drivers of the recovery have been very loose monetary policy; keeping interest rates as low as possible; keeping taxes low; and huge government spending, which essentially replaced private spending that dried up during the recession.

All of this was warranted, but what do these drivers look like going forward? The reality is that unless the economy gets worse, we're going to undo a lot of that stimulus over the next couple of years. That means interest rates are going to rise. It wouldn't shock me if the Federal Reserve started to raise interest rates next year. From a fiscal policy standpoint, we're already starting to hear jawboning about cutting spending and raising taxes.

So the monetary and fiscal policy that provided a big tailwind for two years is just not going to provide as much of a tailwind and may, in fact, provide a bit of a headwind.

"The reality is that unless the economy gets worse, we're going to undo a lot of that stimulus over the next couple of years."

On top of that, consumers are facing nearly $4 a gallon gas prices, and that's pretty challenging. And the last wild card is that we're heading into an election year again. Typically, that throws more uncertainty into the mix that the market doesn't necessarily love.

We also have global concerns. Inflation is accelerating in the faster-growing parts of the world, so those countries are trying to slow their economies down. Brazil, India, China, and Australia have raised interest rates. And we don't yet know the political and economic implications of the uprisings in the Middle East or the full economic fallout of the disasters that hit Japan.

All in all, I have a hard time thinking that the scale is tipping one way or the other. To use a baseball analogy, I like to wait for "fat pitches," which don't come around very often. Early 2009 was a fat pitch; I'm still waiting for the next one. In the meantime, I expect more of a singles and doubles type of market from here. Don't swing at bad pitches by buying lower-quality, more expensive companies.

The stocks mentioned by Mr. Milano accounted for 10.4% of the assets of the New America Growth Fund as of June 30, 2011.

T. Rowe Price New America Growth Fund

As of June 30, 2011

Top 10 Holdings	
1	Apple
2	Google
3	United Parcel Service
4	Fastenal
5	United Technologies
6	Potash Corp. of Saskatchewan
7	CME Group
8	Monsanto
9	Cooper Industries
10	Nuance Communications

Sector Diversification (% of Total Net Assets)	
Information Technology	29.7%
Health Care	18.4
Industrials and Business Services	18.2
Consumer Discretionary	9.3
Materials	7.5
Financials	6.3
Energy	5.2
Consumer Staples	2.2
Telecommunication Services	0.1
Reserves/Other	3.1

Performance Spotlight

Average Returns Aren't All That Common

First of two articles

If the market volatility of the last few years has made investors question their investment strategies, they likely are not alone. With extreme total returns of -37% in 2008 and about 26.5% in 2009—as measured by the S&P 500 index—even the most steadfast investors may have struggled with their emotions.

However, 2010's return of 15.06% was closer to the index's historic annualized return since 1926 of 9.87%. Is that a more typical year? Indeed, what returns should investors expect for their stock portfolios?

While the future isn't predictable, past returns can offer some insights. Consider the chart on this page, which shows the distribution of the S&P 500 index's annual total returns since 1926.

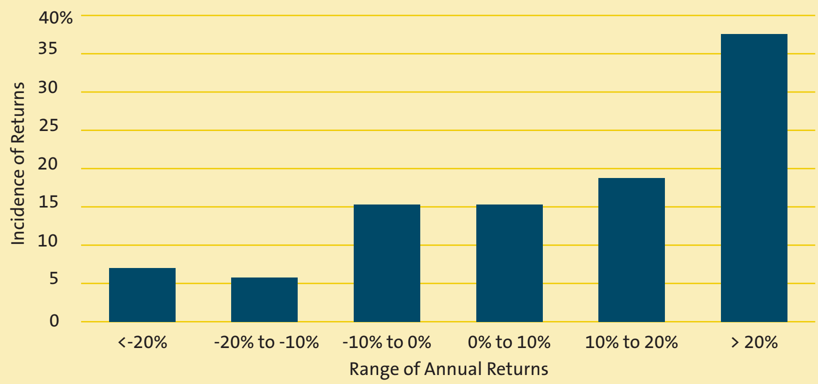
A quick glance shows how infrequently the market has declined more than 10% in a year. More evident, though, is that the market returned more than 10% in 48 out of the last 85 years, or more than 56% of the years.

While there is a wide variation of returns, the years in which returns are positive by 10% or more have been much more common than any other outcome.

So what is a normal return? There may not be a right answer. "When looking at short-term holding periods, such as one year, it has been normal for the market to have 'abnormal' returns." says Stuart Ritter, a T. Rowe Price financial planner.

There actually has only been one year in which the annual return of the S&P 500 fell within one percentage point of its long-term average of 9.87%. That means that, in practically every year, the index has either underperformed or outperformed its long-term average return.

Distribution of Annual Returns for S&P 500 Index
1926–2010



Source: T. Rowe Price, based on Ibbotson data.

Taking Action?

Investors may want to take into account this long-term pattern of returns when they are questioning their asset allocation decisions after a year of underperformance.

"When returns are low or negative, it's natural to feel that you have to act, but action isn't always in favor of the investor," Mr. Ritter says. "Changing an asset allocation decision based solely on the returns of 2008 is just as irrelevant as changing your asset allocation based solely on the returns of 2009. You have to step back and put your portfolio in the context of long-term returns."

Longer holding periods offer much less breadth or volatility of returns. For example, the S&P 500 has produced negative returns in only four out of 76 different 10-year periods since 1926 (calculated annually), according to a T. Rowe Price analysis. And there have been *no* 15-year holding periods with negative returns.

Moreover, the difference or spread in annualized returns between the best and worst 15-year periods was 18.3 percentage points, compared with 97.3 percentage points over one-year periods.

For the long-term investor, these data may suggest a more successful path than attempting to time the shorter-term volatility of the market.

"Emotional reactions to market volatility can be investors' worst enemy," Mr. Ritter says. "Having a well thought out investment strategy is the first step to conquering the ups and downs of the market.

"Instead of focusing on last year's return, investors may do better making their investment decisions based on their risk tolerance and the time horizon of their financial goals."

Next issue: Historically, the dispersion of annual returns for a balanced portfolio—60% stocks and 40% bonds—has shown lower volatility than that for an all-stock portfolio while only somewhat limiting the potential for positive outcomes.

Diversifying to Fight Different Forms of Inflation

Most investors understand that inflation is usually bad for their financial health. However, they may not realize that inflation comes in different forms, which may produce different economic symptoms—and could have very different effects on their portfolios.

When investors worry about inflation, they typically fear the impact on long-term portfolio values. Even moderate inflation can substantially reduce purchasing power over a long time horizon, such as that of an investor saving for retirement.

But inflation also may have a more immediate impact on portfolio performance. Capital markets, especially bond markets, tend to be allergic to any signs of rising inflationary pressures.

Negative market reactions can lead to higher stock and bond market volatility—large or erratic price movements—increasing short-term risk and also possibly eroding long-term portfolio performance.

"When inflation is rising, markets may fear that the prices [that businesses receive for their products] won't keep pace with cost increases, and earnings will come under pressure," says Alan Levenson, T. Rowe Price's chief economist. That uncertainty tends to lower stock valuation measures such as the price-to-earnings ratio.

To potentially counter or at least dampen these risks, many advisors recommend that investors allocate a small share of their portfolios—typically less than 5%—to so-called real assets.

These holdings provide direct or indirect exposure to tangible goods that have tended to hold or even increase in value in inflationary periods. Examples include commodities, real estate, and industrial infrastructure.

"Real assets are simply another tool for diversifying your portfolio," explains Richard Whitney, T. Rowe Price's head of asset allocation.

Diversification, of course, cannot assure a profit or protect against loss in a declining market.

Also, returns on real assets may be significantly lower—both in absolute terms and relative to the broader equity market—when inflation is low or declining.

Differing Cycles

To better understand the potential impact of inflation, investors also need to take into account the fact that inflation tends to be cyclical and not all cycles are the same—either in terms of the prices most affected or the resulting impact on stock and bond markets.

The late 1970s, for example, saw rapid increases in both wages and consumer prices. The 1980s, by contrast, saw declining consumer inflation, sluggish wage growth, and minimal gains or even deflation in commodity prices. More recently, commodity inflation has accelerated, but U.S. wages and consumer prices have risen relatively slowly.

"The data suggest that you tend to get diverging performance in different cycles," notes Tim Parker, manager of the New Era Fund, which invests in natural resource companies. "It's what you would expect, given the impact these cycles have on particular sectors or industries."

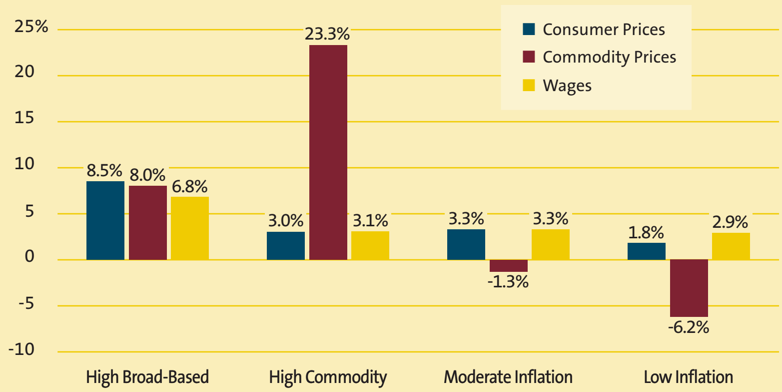
To explore these patterns in depth, T. Rowe Price analysts looked at the performance of various asset classes over rolling 12-month periods running from December 31, 1977, through December 31, 2010.

While it would have been desirable to include the years immediately prior to the study period—a time of high consumer and wage inflation—reliable return data for many real asset sectors were not available.

The goal of the study was to

Average Inflation Rates Under Various Inflation Regimes

December 31, 1977, Through December 31, 2010



High broad-based inflation periods were defined as the top 20% of all rolling 12-month periods covered in the study, based on the average of the core CPI rate and gains in the U.S. average hourly wage. High commodity inflation periods included the top 20% of all periods for increases in the Producer Price Index (PPI) for crude materials—not including the high broad-based inflation periods. Low inflation periods included the bottom 20% of all remaining periods, with moderate inflation periods accounting for the remainder. Source: Bureau of Labor Statistics; analysis by T. Rowe Price.

identify how these asset classes behaved under different inflation "regimes"—that is, different combinations of wage, consumer, and commodity inflation. The four broad regimes are:

- **High broad-based inflation:** Periods marked by relatively high inflation in consumer prices, as measured by the core (excluding food and energy) consumer price index (CPI) and by rapid wage gains.
- **High commodity inflation:** Periods showing rapid increases in raw material prices, as measured by the producer price index (PPI) for crude materials.
- **Low broad-based inflation:** Periods when wages and core consumer prices rose only slowly or even declined.
- **Moderate inflation:** All other periods not captured in the first three regimes.

Performance Impact

For each regime, the study examined the performance of the S&P 500 index and of four equity categories that provide exposure to real assets: U.S. real estate investment trusts (REITs), global REITs, energy and materials, and metals and mining.

Stocks overall (the S&P 500) tended to perform best during periods of moderate inflation and worst during unusually low inflation.

During high inflation periods—both broad-based and commodity driven—all four real asset sectors outperformed both the S&P 500 and the CPI. All sectors also tended to post higher returns in high inflationary periods than under low inflation conditions.

However, real asset sectors also demonstrated varying relative strength under different regimes. REITs posted their best returns in periods of high broad-based inflation, while energy and materials performed somewhat better when commodity inflation was high. Metals and mining stocks posed their lowest returns during low inflation periods.

Some investors might conclude that by playing inflation cycles—for example, by investing in REITs during high consumer inflation periods but switching to metals and mining stocks when commodity inflation is high—they could boost their returns. But the risks are considerable.

"These cycles tend to be extremely unpredictable," Mr. Parker notes. "For the average investor, a better idea is to try to balance the different risks they pose."

Given the many uncertainties, even professional managers prefer to proceed with caution. "It's useful to have the ability to shuffle the deck a bit to take advantage of different return patterns," Mr. Parker concludes. "But you definitely want to maintain a high degree of diversification."

Richard Fullmer, T. Rowe Price's asset allocation investment strategist, suggests that a more practical goal for investors is to maintain diversified exposure to multiple real asset categories.

"Our research suggests that over the long run, you don't change overall portfolio returns much by adding modest exposure to real assets," Mr. Fullmer says. "But it does tend to reduce volatility. To the extent investors care about risk, that's a potential benefit."

Investors also may benefit by obtaining exposure indirectly—via the stocks of companies that generate revenues from real assets—rather than holding physical assets directly. Potential benefits may include:

- **Liquidity:** Natural resource equities typically are traded on exchanges or in the over-the-counter markets that ease buying and selling.
- **Diversification potential:** Natural resource equities may provide exposure to commodities that are otherwise difficult to access or to such related sectors as energy services, engineering, or agricultural biotechnology.
- **Return potential:** Natural resource companies may be able to generate better returns than rising commodity prices alone could provide.

  "If you have a good management team in place with the right business strategy, they may be able to make things happen that simple exposure to commodities won't," Mr. Parker says.

Investment Returns for Various Inflation Regimes

Average 12-Month Returns, December 31, 1977, Through December 31, 2010

	Asset Class/Sector					
Inflation Regime	U.S. REITs	Global REITs	Energy and Materials	Metals and Mining	S&P 500	Consumer Price Index
High Broad-Based	20.4%	17.7%	15.1%	20.8%	12.8%	8.5%
High Commodity	18.8	14.8	17.5	22.8	8.2	3.0
Low Inflation	9.0	14.0	12.6	12.0	7.9	1.8
Moderate Inflation	11.9	14.8	14.4	9.0	16.3	3.3

These returns are based on the various inflation periods identified in the study, as described in the chart on page 14. They reflect average returns for all of the 12-month periods included in each type of inflation regime and, therefore, are not returns an investor actually could have earned. But they indicate how these various real asset classes performed during different types of inflation environments.

Source: Morningstar, Inc.; analysis by T. Rowe Price.

Making Up for Lost Time When Saving for Retirement

With the unemployment rate still running about 9%—and half of the unemployed out of work at least six months—it's likely that more workers have stopped their retirement savings contributions.

At one time or another, the same may be true for many others who have not been laid off. Retirement savers may temporarily suspend saving because of lost income while caring for children or an elderly parent, returning to school, coping with medical problems, or any number of other reasons.

But a lapse in retirement contributions doesn't necessarily need to translate into lost retirement income. A new study by T. Rowe Price analyzes the potential long-term impact on retirement income from saving interruptions and how to get back on track, assuming these savers expect withdrawals from their nest eggs to provide half of their retirement income at age 65. It shows:

- The younger the saver, the greater the relative impact of a savings gap because the missed savings could have compounded over a longer period of time.
- At the same time, younger savers could more easily compensate for their lost savings with relatively small increases to their retirement contributions once they resume saving because, again, these increased savings have many years to grow. So, for younger investors, time works both for and against them.
- The reverse is true for older savers because there's less time before retirement. The nest eggs of those who are closer to retirement would be relatively less damaged by missed savings, but the increases in contributions required to catch up would be greater.
- Those who contributed 15% of their salary each year (including employer contributions) and began saving when they entered the workforce (25 years old or younger) would be better able to absorb the impact of a temporary saving hiatus.

"We never know if or when we may need to temporarily stop saving for retirement during our careers," says Christine Fahlund, a senior financial planner with T. Rowe Price. "For this reason it's important to remain diligent about saving when we can afford to do so. And if you have to suspend saving, try to compensate as soon as you can by increasing your contributions."

The Age Paradox

This study assumed that a hypothetical retirement saver earns $40,000 at age 25; receives a 3% raise each year; and contributes 13% of her salary annually, including her employer's match, toward retirement.

At this savings rate over her entire career, she would accumulate a retirement nest egg of almost $500,000 by 65 (in today's dollars), assuming a 7% annualized return and 3% annual inflation. If she

Recovering From Missed Savings

This table shows the potential impact of taking time off from saving for retirement and how to recoup any prospective shortfalls in retirement income due to the temporary lapse. Each scenario assumes the saver begins working and saving at age 25; earns $40,000; receives a 3% raise annually; contributes 13% of her annual salary (including employer matches) toward retirement; earns a 7% annualized return over 40 years of saving; and withdraws 4% of her savings balance the first year of retirement. Under these assumptions, this individual would be able to replace 50% of her preretirement salary from her savings upon retirement at 65. The chart shows the impact of missed savings on the replacement income rate and the savings rate needed to make up for it.

Age Savings Lapse Occurs	Duration of Savings Lapse					
	One Year		Three Years		Five Years	
	Retirement income as % of salary at age 65	Savings rate needed to replace 50% of preretirement salary at 65	Retirement income as % of salary at age 65	Savings rate needed to replace 50% of preretirement salary at 65	Retirement income as % of salary at age 65	Savings rate needed to replace 50% of preretirement salary at 65
25	48%	14%	43%	15%	39%	17%
35	48	14	45	15	42	17
45	49	14	47	16	45	19
55	49	14	48	18	46	27

Source: T. Rowe Price.

withdrew 4% of her assets the first year of retirement, she would replace 50% of her preretirement salary.

(Social Security and other sources could provide an additional 25%, enabling her to have retirement income equal to 75% of her preretirement salary.)

However, if she experiences savings lapses and does not raise her contribution rate above 13% thereafter, her nest egg—and her annual withdrawals from it in retirement—would be less.

For example, if she delayed retirement savings until 26, she would be able to replace only 48% of her salary at age 65.

take the next five years off from saving—compared with 39% if a 25-year-old were to do the same.

Yet getting back on track would be much more difficult for the 55-year-old investor. When she resumes contributing at age 60, she would have to contribute 27% of her salary versus 17% for the 25-year-old.

"It's a bit of a paradox that the younger saver stands to potentially lose more from gaps in savings contributions but finds it easier to recover," Ms. Fahlund says. "However, the reverse is true if someone 30 years older does the same thing.

"This can be attributed to the power of compounding. There's

"...the only way to compensate for lapses is to save much more."

much less time for money to compound when you're only 10 years away from retirement compared with 20 or 30 years. Unfortunately, the only way to compensate for lapses is to save much more."

And of course, the longer she forgoes contributing, the harder it is to catch up. For example, if she did not start saving until she reached 30—a five-year delay—she would only be able to replace 39% of her preretirement salary from her portfolio at 65. (See chart on page 16.) To replace 50% of her income, she would need to save 17% of her salary each year instead of 13%.

Conversely, the impact of missed savings becomes less pronounced the closer the saver gets to retirement—because the missed contributions would not have had as much time to compound.

This time squeeze, however, also means that to make up the difference, the preretiree would have to save at a much higher rate than younger savers.

For example, a 55-year-old would still be able to replace 46% of her salary in retirement if she were to

Multiple Misses

Not surprisingly, taking time off from saving more than once presents an even greater challenge to replacing income at age 65.

If a saver takes one year off at age 25 and again at 35, she would only be able to replace 46% of her salary in retirement. Taking another year off at 45 would decrease her replacement income rate to 45%.

Still, time is on her side, and she would only need to increase her annual retirement contributions from 13% to 15% of her salary at age 46 to get back on track (assuming she had also modestly increased her contributions after each savings suspension: by about 0.5% at age 26, about 1% at age 36, and about another 1% at age 46).

Extreme cases can generate extreme numbers.

If she were to halt savings for five years at age 25, 35, and again at 45, essentially missing 15 years' worth of contributions, she would only be able to replace 26% of her salary in retirement from savings at 65. To get back on track, she would have to increase her savings rate each time she resumed contributions and would need to save about a third of her income between ages 46 and 65.

"Ultimately, the more time you lose," Ms. Fahlund says, "the harder it is to recover."

The Best Approach

T. Rowe Price advises retirement savers to contribute at least 15% of their annual salaries toward retirement each year, including employer contributions. In this study, that would provide almost 60% of preretirement salary at age 65.

With a 15% contribution rate, taking one to three years off at any one point during a career would not have much impact on the saver's ability to replace at least 50% of preretirement salary from savings.

Only those individuals who had experienced long savings interruptions—five years at ages 25 or 35—would fail to meet the 50% threshold—replacing 45% and 49% of their salaries, respectively.

"Having to reduce or temporarily discontinue saving—whether it's for three months or three years—is sometimes unavoidable," Ms. Fahlund says. "The best way to prevent this from having a significantly adverse effect on your income in retirement is to contribute at least 15% as early and as often as you can."

Developing Financially Smart Kids

From the time children drop their first few coins into a piggy bank, they are ready to learn about setting savings goals and making smart decisions about spending. They may struggle with giving up today's candy bar to have enough money next month to buy a video game, but that's part of developing sound financial habits.

But understanding the bite of inflation? The wisdom of diversifying savings? Can a third grader comprehend such personal finance concepts?

The answer is "yes," says Stuart Ritter, a financial planner for T. Rowe Price and father of three young children. And the sooner parents start imparting these lessons, he says, the more effective they will be in helping children become financially responsible adults.

Yet, T. Rowe Price's third annual Parents, Kids, and Money Survey found that two-thirds of parents think they could be doing more to provide basic lessons on saving and spending, and most see room for improvement in serving as financial role models.

Following are some tips Mr. Ritter suggests for having family financial discussions:

- **Take advantage of everyday teachable moments.** These can happen when you are making purchases, opening bills, or navigating a website to plan a family vacation. For example, when your grade school daughter asks for her own credit card so she, too, can get things at the store for "free," show her the bill that comes once a month and explain how you pay it out of your earnings. The goal is to reinforce financial lessons.
- **Make it real.** When kids are simply told to "save money," it can come across as an abstract idea. Helping kids decide on specific goals they'd like to save for not only provides real-life incentives but will better equip them to make smarter spending decisions.

THIRD ANNUAL PARENTS, KIDS, AND MONEY SURVEY

PARENT REPORT CARD

HOW PARENTS GRADE THEMSELVES AS

FINANCIAL ROLE MODELS

FOR THEIR CHILDREN IN REGARDS TO SAVINGS AND SPENDING HABITS:

21%	A
45%	B
27%	C
5%	D
2%	F

AVERAGE: B-

SOURCE: T. ROWE PRICE THIRD ANNUAL PARENTS, KIDS, AND MONEY SURVEY OF PARENTS WITH CHILDREN AGES 8–14, 2011.

For example, if your children want to get new bicycles and are going to pay for half, help them set up a budget that covers how much the bikes will cost, how much they can save each month if they don't spend their allowance on other things, and how many months it will take to reach their goal.

- **Emphasize prioritization.** For most kids, whose essential needs are likely taken care of by their parents, the choices they face are really among things they want. Tying spending decisions back to their goals when your kids claim there's something else they want can be a better approach than simply saying "no."
- **Share the family finances.** Have open communications about the financial choices the family has to make. It's important for kids to understand the limitations families face and to let them know that the topic of money is not taboo.
- **Keep it fun.** Find ways to better engage your kids and keep the conversations interesting.

One fun way to do that is to play The Great Piggy Bank Adventure® with them. T. Rowe Price collaborated with Walt Disney Parks and Resorts Online to produce this free online board game, which conveys basic financial concepts.

To play, please visit thegreatpiggybankadventure.com.

T. Rowe Price and Disney Enterprises, Inc., are not affiliated companies.

Late-June Rally Pares U.S. Equity Losses in a Volatile Quarter

Major U.S. equity indexes were narrowly mixed in the second quarter of 2011. Although corporate earnings and merger activity helped lift the market in April, several factors—including soft U.S. economic data and worries that Greece could default on its sovereign debt—weighed on stocks in May and June. Losses were trimmed significantly by a sharp rally in the final days of the quarter, as the Greek parliament approved more austerity measures needed to receive additional bailout funds from the European Union and the International Monetary Fund.

Equity Review

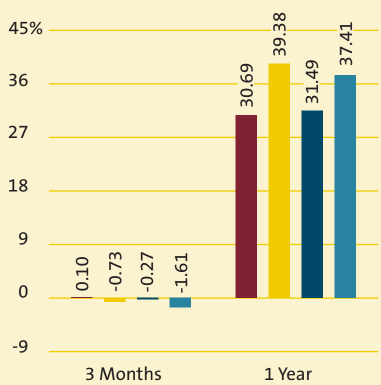
Domestic Noncyclical Sectors Outperform Cyclicals

Small-cap stocks generally lagged their larger counterparts. As measured by various Russell indexes, growth stocks fared better than value stocks across all market capitalizations.

In the U.S. equity market, as measured by the Wilshire 5000 Total Market Index, sector performance was widely mixed. Health care shares performed best in part because investors favored market segments that tend to hold up well in a weaker economy. Utilities and consumer staples, which are also defensive sectors, also did well. Energy shares declined as oil prices tumbled in May and June, while financials skidded due to housing and equity market weakness and regulatory uncertainty.

Equities in developed non-U.S. countries rose in the second quarter, outperforming U.S. shares in part because of stronger non-U.S. currencies versus the dollar. European markets did best. Developed Asian markets were mostly lackluster, including Japan, whose economy slumped following the devastating March 11 earthquake and tsunami. Emerging markets equities lagged developed non-U.S. markets. Asian markets held up best but were flat, as tighter monetary policies to fight inflation led to expectations of slower growth in various countries.

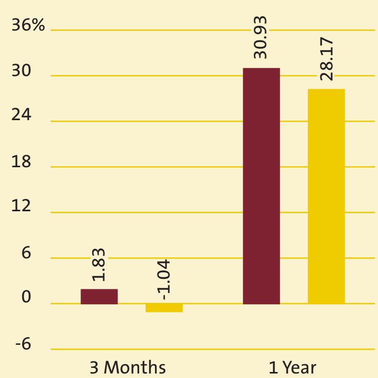
U.S. Stock Market Performance



Total Returns for Periods Ended June 30, 2011

- S&P 500 Stock Index
- S&P MidCap 400 Index
- Nasdaq Composite Index
- Russell 2000 Index

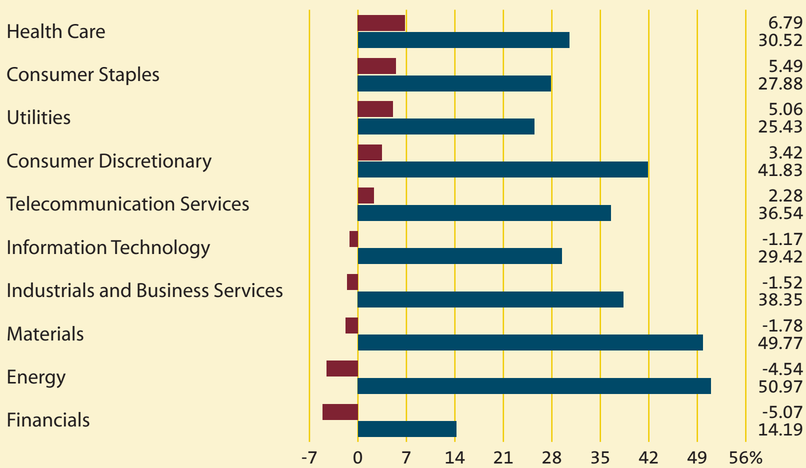
International Stock Market Performance



Total Returns for Periods Ended June 30, 2011

- MSCI EAFE Index (Europe, Australasia, Far East)
- MSCI Emerging Markets Index

Performance of Wilshire 5000 Series



- 3 Months
- 1 Year

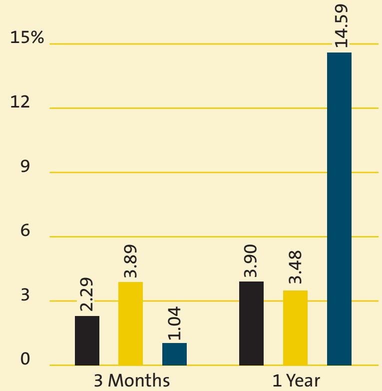
Total Returns for Periods Ended June 30, 2011, Ranked by Highest to Lowest Quarterly Return

Investment-Grade Issues Outpace High Yield Amid Risk Aversion

U.S. bonds generally produced good returns amid equity market weakness, slower economic growth, and growing concerns about the Greek debt situation. In the investment-grade universe, longer-term Treasury and municipal securities did well as longer-term interest rates declined. Munis were also helped by reduced issuance, improving demand, and reduced fears of defaults. Investment-grade corporate, mortgage-backed, and asset-backed securities were less robust. High yield securities lagged amid heavy new issuance and equity market weakness.

Non-U.S. bonds produced solid gains. Bonds in many developed markets performed well in local currency terms, and stronger currencies versus the U.S. dollar added to returns in dollar terms. However, some peripheral European Union bond markets fared poorly. Despite rising inflation and interest rates, emerging markets bonds benefited from strong capital flows and improving fundamentals.

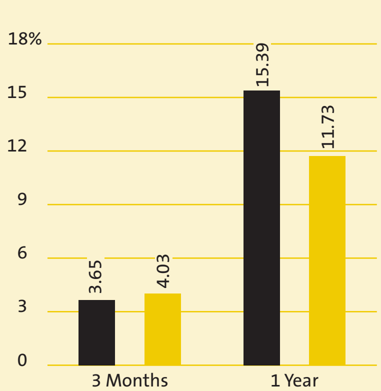
U.S. Bond Market Performance



Total Returns for Periods Ended June 30, 2011

- Barclays Capital U.S. Aggregate Index
- Barclays Capital Municipal Bond Index
- Credit Suisse High Yield Index

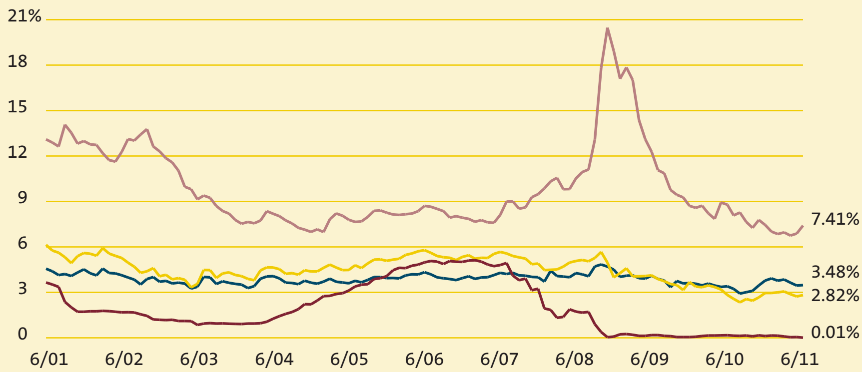
International Bond Market Performance



Total Returns for Periods Ended June 30, 2011

- Barclays Capital Global Aggregate ex U.S. Dollar Bond Index
- J.P. Morgan Emerging Markets Bond Index–Global

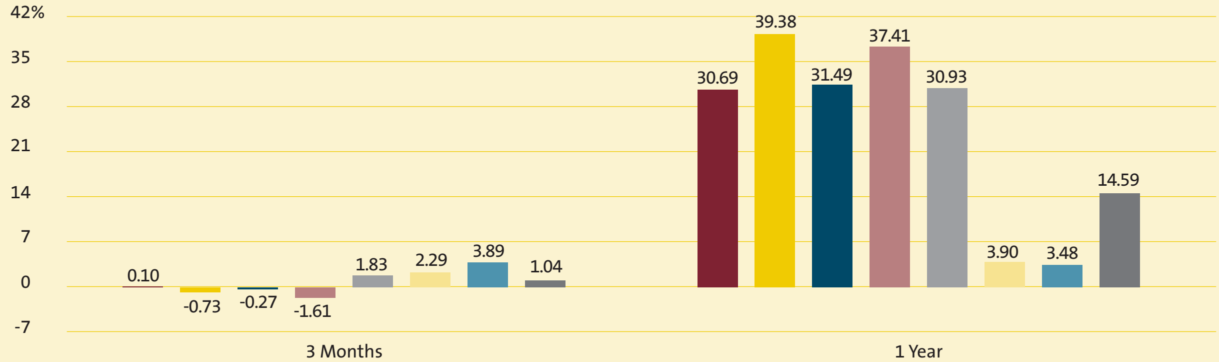
Trends in Interest Rates



- Credit Suisse High Yield Index*
- Barclays Capital U.S. Aggregate Index*
- Barclays Capital Municipal Bond Index*
- 90-Day Treasury Bills

* Yield-to-worst

Stock and Bond Market Performance



Total Returns for Periods Ended June 30, 2011

- S&P 500 Stock Index
- S&P MidCap 400 Index
- Nasdaq Composite Index
- Russell 2000 Index
- MSCI EAFE Index
- Barclays Capital U.S. Aggregate Index
- Barclays Capital Municipal Bond Index
- Credit Suisse High Yield Index

Performance Summary

T. Rowe Price Mutual Funds

Past Quarter, Year, and Average Annual Total Returns
Periods Ended June 30, 2011

The performance information presented here includes changes in principal value, reinvested dividends, and capital gain distributions. *Current performance may be higher or lower than the quoted past performance, which cannot guarantee future results. Share price, principal value, yield, and return will vary, and you may have a gain or loss when you sell your shares. To obtain the most recent month-end performance, call us at 1-800-225-5132 or visit our website. The performance information shown does not reflect the deduction of redemption fees (if applicable); if it did, the performance would be lower. Call 1-800-225-5132 to request a prospectus or summary prospectus; each includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.* Funds are placed in alphabetical order in each category. To learn more about each fund's objective and risk/reward potential, visit troweprice.com/mutualfunds.

STOCK FUNDS — Domestic

	Ticker Symbol	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception	Inception Date	Redemption Fee	Redemption Fee Period	Expense Ratio	Expense Ratio as of Date
Blue Chip Growth	TRBCX	0.72%	35.53%	4.39%	4.94%	3.19%	6/30/93			0.77%	12/31/10
Capital Appreciation	PRWCX	1.13	22.73	6.57	6.31	8.20	6/30/86			0.73	12/31/10
Capital Opportunity	PRCOX	0.00	29.63	3.12	3.25	3.06	11/30/94			0.74	12/31/10
Diversified Mid-Cap Growth	PRDMX	0.49	42.34	6.65	6.78	7.85	12/31/03			1.12	12/31/10
Diversified Small-Cap Growth	PRDSX	0.28	50.85	10.94	8.21	5.59	6/30/97	1.0%	90 days	1.25	12/31/10
Dividend Growth	PRDGX	0.96	30.53	3.98	4.17	4.04	12/30/92			0.68	12/31/10
Equity Income	PRFDX	-0.95	27.78	3.98	2.64	4.50	10/31/85			0.70	12/31/10
Equity Index 500	PREIX	0.04	30.31	3.16	2.71	2.47	3/30/90	0.5	90 days	0.30	12/31/10
Extended Equity Market Index	PEXMX	-1.02	39.48	7.56	5.59	7.13	1/30/98	0.5	90 days	0.42	12/31/10
Financial Services	PRISX	-5.64	14.37	3.66	-2.99	2.29	9/30/96			0.96	12/31/10
Growth & Income	PRGIX	0.43	29.82	3.26	3.50	2.95	12/21/82			0.72	12/31/10
Growth Stock	PRGFX	0.06	33.77	4.19	4.91	4.01	4/11/50			0.70	12/31/10
Health Sciences	PRHSX	5.32	44.27	12.31	11.27	8.56	12/29/95			0.84	12/31/10
Media & Telecommunications	PRMTX	1.19	41.96	13.91	12.55	11.66	10/13/93			0.84	12/31/10
Mid-Cap Growth[1]	RPMGX	-1.21	38.27	8.92	8.41	8.39	6/30/92			0.80	12/31/10
Mid-Cap Value[1]	TRMCX	0.00	28.78	8.76	6.39	9.81	6/28/96			0.81	12/31/10
New America Growth	PRWAX	-0.40	37.17	6.95	7.58	4.14	9/30/85			0.83	12/31/10
New Era	PRNEX	-7.20	43.85	-7.18	5.97	12.07	1/20/69			0.67	12/31/10
New Horizons	PRNHX	1.57	51.21	14.18	8.28	7.88	6/3/60			0.81	12/31/10
Real Estate	TRREX	4.50	36.41	6.33	2.07	11.19	10/31/97	1.0	90 days	0.76	12/31/10
Science & Technology	PRSCX	-1.19	38.50	9.13	8.90	0.91	9/30/87			0.92	12/31/10
Small-Cap Stock	OTCFX	-0.51	43.94	13.86	6.83	8.15	6/1/56			0.92	12/31/10
Small-Cap Value	PRSVX	-2.26	32.95	7.30	4.71	10.04	6/30/88	1.0	90 days	0.97	12/31/10
Tax-Efficient Equity[2]	PREFX						12/29/00	1.0	365 days	1.22	2/28/11
Returns before taxes		0.28	38.38	3.84	4.87	4.08					
Returns after taxes on distributions		–	38.34	3.83	4.86	4.07					
Returns after taxes on distributions and sale of fund shares		–	24.98	3.28	4.19	3.55					
Total Equity Market Index	POMIX	-0.27	31.72	4.09	3.33	3.53	1/30/98	0.5	90 days	0.40	12/31/10
U.S. Large-Cap Core	TRULX	-0.50	31.56	–	–	20.75	6/26/09			†	12/31/10
Value	TRVLX	-1.28	30.30	4.32	2.99	4.61	9/30/94			0.85	12/31/10

[1] Closed to new investors except for a direct rollover from a retirement plan into a T. Rowe Price IRA invested in this fund.

[2] The returns presented reflect the return before taxes; the return after taxes on dividends and capital gain distributions; and the return after taxes on dividends, capital gain distributions, and gains (or losses) from redemptions of shares held for 1-, 5-, and 10-year or since-inception periods, as applicable. After-tax returns reflect the highest federal income tax rate but exclude state and local taxes. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. During periods when a fund incurs a loss, the post-liquidation after-tax return may exceed the fund's other returns because the loss generates a tax benefit that is factored into the result. An investor's actual after-tax return will likely differ from those shown and depend on his or her tax situation. Past before- and after-tax returns do not necessarily indicate future performance.

† The U.S. Large-Cap Core Fund's gross and net expense ratios were **2.21%** and **1.15%**, respectively; the net expense ratio reflects a contractual expense limitation that expires on 4/30/12.

BENCHMARKS — Domestic Stock

	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception
S&P 500 Index	0.10%	30.69%	3.34%	2.94%	2.72%
S&P MidCap 400 Index	-0.73	39.38	7.82	6.60	7.94
Nasdaq Composite Index	-0.27	31.49	6.55	5.01	2.53
Russell 2000 Index	-1.61	37.41	7.77	4.08	6.27
Lipper Indexes					
Large-Cap Core Funds	0.14	28.64	2.41	2.54	2.11
Equity Income Funds	0.52	29.68	3.42	2.46	3.71
Small-Cap Core Funds	-1.37	36.32	7.54	4.74	6.91

Performance Summary

T. Rowe Price Mutual Funds

Past Quarter, Year, and Average Annual Total Returns
Periods Ended June 30, 2011

	Ticker Symbol	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception	Inception Date	Redemp-tion Fee	Redemp-tion Fee Period	Expense Ratio	Expense Ratio as of Date
STOCK FUNDS — International/Global											
Africa & Middle East	TRAMX	-0.69%	7.53%	-16.09%	–	-5.61%	9/4/07	2.0%	90 days	1.47%	10/31/10
Emerging Europe & Mediterranean	TREMX	-4.68	35.19	-8.71	3.90%	16.74	8/31/00	2.0	90 days	1.41	10/31/10
Emerging Markets Stock	PRMSX	-0.42	27.38	0.40	9.79	15.02	3/31/95	2.0	90 days	1.27	10/31/10
European Stock	PRESX	2.86	45.64	1.62	4.87	6.57	2/28/90	2.0	90 days	1.03	10/31/10
Global Infrastructure	TRGFX	2.19	24.16	–	–	9.40	1/27/10	2.0	90 days	††	10/31/10
Global Large-Cap Stock	RPGEX	-0.90	30.91	–	–	33.27	10/27/08	2.0	90 days	‡	10/31/10
Global Real Estate	TRGRX	4.14	35.48	–	–	27.07	10/27/08	2.0	90 days	*	12/31/10
Global Stock	PRGSX	-1.81	28.29	-5.05	1.75	4.50	12/29/95	2.0	90 days	0.87	10/31/10
Global Technology	PRGTX	-1.64	43.40	15.42	11.48	6.17	9/29/00			1.04	12/31/10
International Discovery	PRIDX	2.91	34.57	4.43	5.96	10.70	12/30/88	2.0	90 days	1.24	10/31/10
International Equity Index	PIEQX	2.12	33.10	-0.87	2.10	5.72	11/30/00	2.0	90 days	0.50	10/31/10
International Growth & Income	TRIGX	2.29	35.86	0.10	2.19	7.34	12/21/98	2.0	90 days	0.89	10/31/10
International Stock	PRITX	2.20	32.83	1.70	4.27	5.42	5/9/80	2.0	90 days	0.87	10/31/10
Japan	PRJPX	3.97	18.28	-5.30	-5.56	0.49	12/30/91	2.0	90 days	1.13	10/31/10
Latin America	PRLAX	-3.32	25.78	1.16	15.55	20.15	12/29/93	2.0	90 days	1.24	10/31/10
New Asia	PRASX	3.79	24.10	15.59	16.54	16.53	9/28/90	2.0	90 days	0.96	10/31/10
Overseas Stock	TROSX	2.65	34.95	0.35	–	-0.63	12/29/06	2.0	90 days	0.90	10/31/10
BENCH-MARKS — International/Global Stock											
MSCI EAFE Index		1.83%	30.93%	-1.30%	1.96%	6.12%					
Lipper Averages											
Emerging Markets Funds		-0.97	26.90	1.82	9.43	15.15					
International Large-Cap Core Funds		1.43	30.89	-2.39	1.29	4.80					
International Large-Cap Growth Funds		1.17	30.90	-0.37	3.34	5.97					
International Small-/Mid-Cap Growth Funds		0.96	36.58	2.10	4.30	10.99					
BOND FUNDS — Domestic Tax-Free[3]											
California Tax-Free Bond	PRXCX	4.59%	2.70%	4.62%	4.14%	4.41%	9/15/86			0.51%	2/28/11
Georgia Tax-Free Bond	GTFBX	4.18	2.35	4.59	3.96	4.29	3/31/93			0.55	2/28/11
Maryland Short-Term Tax-Free Bond	PRMDX	0.50	1.01	2.33	2.95	2.53	1/29/93			0.52	2/28/11
Maryland Tax-Free Bond	MDXBX	4.23	2.88	5.18	4.40	4.52	3/31/87			0.46	2/28/11
New Jersey Tax-Free Bond	NJTFX	3.98	2.52	4.58	4.08	4.42	4/30/91			0.52	2/28/11
New York Tax-Free Bond	PRNYX	4.03	2.88	4.54	4.22	4.43	8/28/86			0.51	2/28/11
Summit Municipal Income	PRINX	4.40	2.90	5.25	4.42	4.92	10/29/93			0.50	10/31/10
Summit Municipal Intermediate	PRSMX	3.17	3.83	5.43	4.94	4.53	10/29/93			0.50	10/31/10
Tax-Free High Yield	PRFHX	4.87	3.13	4.10	3.02	4.42	3/1/85	2.0%◆	90 days	0.68	2/28/11
Tax-Free Income	PRTAX	4.07	2.59	4.94	4.36	4.61	10/26/76			0.52	2/28/11
Tax-Free Short-Intermediate	PRFSX	2.01	2.88	4.47	4.28	3.54	12/23/83			0.49	2/28/11
Virginia Tax-Free Bond	PRVAX	4.14	3.11	5.19	4.46	4.63	4/30/91			0.48	2/28/11

†† The Global Infrastructure Fund's gross and net expense ratios were **2.42%** and **1.10%**, respectively; the net expense ratio reflects a contractual expense limitation that expires on 2/29/12.

‡ The Global Large-Cap Stock Fund's gross and net expense ratios were **1.61%** and **1.00%**, respectively; the net expense ratio reflects a contractual expense limitation that expires on 2/28/13.

* The Global Real Estate Fund's gross and net expense ratios were **2.34%** and **1.05%**, respectively; the net expense ratio reflects a contractual expense limitation that expires on 4/30/13.

3 Some income from the tax-free funds may be subject to state and local taxes and the federal alternative minimum tax.

◆ Effective 8/15/11, this fund will begin charging a redemption fee.

∞ Effective 8/15/11, this fund's redemption fee will increase from 1% to 2%.

^ The Strategic Income Fund's gross and net expense ratios were **1.04%** and **0.80%**, respectively; the net expense ratio reflects a contractual expense limitation that expires on 9/30/11.

◊ The Emerging Markets Local Currency Bond Fund's gross and net expense ratios were **1.21%** and **1.10%**, respectively; the net expense ratio reflects a contractual expense limitation that expires on 4/30/14.

All mutual funds are subject to market risk, including possible loss of principal. Funds that invest overseas generally carry more risk than funds that invest strictly in U.S. assets due to factors such as currency risk, geographic risk, and emerging markets risk. Funds that invest in fixed income securities are subject to credit risk and liquidity risk, with high yield securities having a greater risk of default than higher-quality securities.

Performance Summary

T. Rowe Price Mutual Funds

Past Quarter, Year, and Average Annual Total Returns
Periods Ended June 30, 2011

	Ticker Symbol	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception	Inception Date	Redemption Fee	Redemption Fee Period	Expense Ratio	Expense Ratio as of Date
BOND FUNDS — Domestic Taxable											
Corporate Income	PRPIX	2.37%	7.24%	8.16%	6.70%	6.21%	10/31/95			0.65%	5/31/10
GNMA[4]	PRGMX	2.43	4.42	6.72	6.54	5.34	11/26/85			0.66	5/31/10
High Yield	PRHYX	0.64	15.35	10.90	8.33	8.46	12/31/84	2.0%∞	90 days	0.76	5/31/10
Inflation Protected Bond	PRIPX	3.32	6.94	4.87	6.51	5.87	10/31/02			0.63	5/31/10
New Income	PRCIX	1.84	4.06	7.18	6.93	5.85	8/31/73			0.72	5/31/10
Short-Term Bond	PRWBX	0.96	2.47	4.22	4.66	4.07	3/2/84			0.59	5/31/10
Strategic Income	PRSNX	1.19	8.05	–	–	14.11	12/15/08			^	5/31/10
Summit GNMA[4]	PRSUX	2.62	4.57	6.86	6.67	5.42	10/29/93			0.67	10/31/10
U.S. Bond Enhanced Index	PBDIX	2.22	3.58	6.56	6.55	5.60	11/30/00	0.5	90 days	0.30	10/31/10
U.S. Treasury Intermediate[4]	PRTIX	3.21	3.30	6.43	7.32	5.58	9/29/89			0.52	5/31/10
U.S. Treasury Long-Term[4]	PRULX	3.08	-1.50	6.05	7.37	6.35	9/29/89			0.59	5/31/10

[4] The market value of shares is not guaranteed by the U.S. government.

	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception
BENCHMARKS — Domestic Bond					
Barclays Capital U.S. Aggregate Index	2.29%	3.90%	6.46%	6.52%	5.74%
Barclays Capital Municipal Bond Index	3.89	3.48	5.58	4.93	4.99
Credit Suisse High Yield Index	1.04	14.59	11.38	8.68	9.17
Lipper Averages					
Short Investment-Grade Debt	0.75	2.81	3.60	3.82	3.47
Corporate Debt Funds A Rated	1.93	5.09	6.44	5.64	5.17
GNMA	2.54	4.22	6.91	6.71	5.25
High Current Yield	0.61	14.93	9.28	7.01	7.21
Short Municipal Debt	1.02	1.68	2.27	2.61	2.58
Intermediate Municipal Debt	3.19	3.61	4.88	4.26	4.02
General Municipal Debt	4.03	2.72	4.08	3.38	3.89

	Ticker Symbol	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception	Inception Date	Redemption Fee	Redemption Fee Period	Expense Ratio	Expense Ratio as of Date
BOND FUNDS — International/Global											
Emerging Markets Bond	PREMX	3.07%	13.02%	10.15%	9.22%	11.37%	12/30/94	2.0%	90 days	0.95%	12/31/10
Emerging Markets Local Currency Bond	PRELX	–	–	–	–	1.35	5/26/11	2.0	90 days	◊	5/26/11
International Bond	RPIBX	3.66	15.49	5.64	6.95	8.27	9/10/86	2.0	90 days	0.82	12/31/10

	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception
BENCHMARKS — International/Global Bond					
Barclays Capital Global Aggregate ex U.S. Dollar Bond Index	3.65%	15.39%	5.79%	7.44%	8.71%
J.P. Morgan Emerging Markets Bond Index–Global	4.03	11.73	10.44	9.59	10.21
Lipper Averages					
Emerging Markets Debt Funds	3.26	13.98	9.38	8.99	11.54
International Income Funds	3.07	12.92	6.77	6.93	7.29

	Ticker Symbol	7-Day Yield	7-Day Yield Without Waiver	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception	Inception Date	Expense Ratio	Expense Ratio as of Date
MONEY MARKET — Tax-Free[5]											
California Tax-Free Money	PCTXX	0.01%	-0.41%	0.00%	0.01%	0.28%	1.27%	1.25%	9/15/86	0.66%	2/28/11
Maryland Tax-Free Money	TMDXX	0.01	-0.36	0.00	0.01	0.35	1.32	1.31	3/30/01	0.55	2/28/11
New York Tax-Free Money	NYTXX	0.01	-0.38	0.00	0.01	0.33	1.30	1.28	8/28/86	0.64	2/28/11
Summit Municipal Money Market	TRSXX	0.01	-0.21	0.00	0.01	0.39	1.42	1.43	10/29/93	0.45	10/31/10
Tax-Exempt Money	PTEXX	0.01	-0.27	0.00	0.03	0.36	1.38	1.37	4/8/81	0.50	2/28/11
Taxable[5]											
Prime Reserve	PRRXX	0.01%	-0.31%	0.00%	0.01%	0.44%	2.00%	1.90%	1/26/76	0.58%	5/31/10
Summit Cash Reserves	TSCXX	0.01	-0.19	0.00	0.01	0.49	2.08	2.03	10/29/93	0.45	10/31/10
U.S. Treasury Money	PRTXX	0.01	-0.36	0.00	0.01	0.19	1.60	1.65	6/28/82	0.45	5/31/10

An investment in the money market funds is not insured or guaranteed by the FDIC or any other government agency. Although the funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the funds. Money fund yields more closely reflect current earnings than do total returns.

[5] In an effort to maintain a zero or positive net yield for the fund, T. Rowe Price has voluntarily waived all or a portion of the management fee it is entitled to receive from the fund. A fee waiver has the effect of increasing the fund's net yield. The 7-day yield without waiver represents what the yield would have been if we were not waiving our management fee. This voluntary waiver is in addition to any contractual expense ratio limitation in effect for the fund and may be amended or terminated at any time without prior notice. Please see the prospectus for more details.

Performance Summary

T. Rowe Price Mutual Funds

Past Quarter, Year, and Average Annual Total Returns
Periods Ended June 30, 2011

	Ticker Symbol	7-Day Yield	3 Months	1 Year	3 Years	5 Years	10 Years or Since Inception	Inception Date	Redemp-tion Fee	Redemp-tion Fee Period	Expense Ratio	Expense Ratio as of Date
ASSET ALLOCATION												
Balanced	RPBAX		1.01%	22.78%	4.98%	5.22%	5.39%	12/31/39			0.68%	12/31/10
Personal Strategy Balanced	TRPBX		0.87	23.93	6.35	5.79	6.33	7/29/94			0.86	5/31/10
Personal Strategy Growth	TRSGX		0.46	29.53	4.92	4.66	5.83	7/29/94			0.91	5/31/10
Personal Strategy Income	PRSIX		1.04	18.23	6.68	6.14	6.26	7/29/94			0.77	5/31/10
Retirement 2005	TRRFX		1.02	18.01	5.97	5.58	5.85	2/27/04			0.61	5/31/10
Retirement 2010	TRRAX		0.88	20.43	5.69	5.32	8.62	9/30/02			0.64	5/31/10
Retirement 2015	TRRGX		0.73	23.15	5.60	5.26	6.07	2/27/04			0.68	5/31/10
Retirement 2020	TRRBX		0.47	25.44	5.36	5.02	9.31	9/30/02			0.71	5/31/10
Retirement 2025	TRRHX		0.32	27.31	5.10	4.81	6.12	2/27/04			0.74	5/31/10
Retirement 2030	TRRCX		0.17	29.11	4.92	4.67	9.74	9/30/02			0.76	5/31/10
Retirement 2035	TRRJX		0.08	30.43	4.83	4.55	6.09	2/27/04			0.77	5/31/10
Retirement 2040	TRRDX		0.05	30.55	4.88	4.58	9.72	9/30/02			0.77	5/31/10
Retirement 2045	TRRKX		0.00	30.41	4.84	4.57	5.93	5/31/05			0.77	5/31/10
Retirement 2050	TRRMX		0.10	30.43	4.84	–	2.44	12/29/06			0.77	5/31/10
Retirement 2055	TRRNX		0.00	30.32	4.79	–	2.41	12/29/06			0.77	5/31/10
Retirement Income	TRRIX		1.08	15.85	5.91	5.47	7.14	9/30/02			0.59	5/31/10
Spectrum Growth	PRSGX		0.00	32.77	4.58	4.52	5.44	6/29/90			0.80	12/31/10
Spectrum Income	RPSIX		1.60	11.33	7.90	7.08	7.12	6/29/90			0.70	12/31/10
Spectrum International	PSILX		2.52	34.25	2.24	4.77	7.08	12/31/96	2.0%	90 days	0.97	12/31/10
T. ROWE PRICE NO-LOAD VARIABLE ANNUITY[6]												
Blue Chip Growth Portfolio			0.53%	34.58%	3.78%	4.26%	2.44%	12/29/00			0.85%	12/31/10
Equity Income Portfolio			-1.13	27.20	3.22	1.91	3.76	3/31/94			0.85	12/31/10
Equity Index 500 Portfolio			-0.09	29.38	2.35	1.94	1.80	12/29/00			0.40	12/31/10
Health Sciences Portfolio			4.99	42.07	11.10	10.06	7.24	12/29/00			0.95	12/31/10
International Stock Portfolio			1.97	31.95	0.78	3.37	4.49	3/31/94			1.05	12/31/10
Limited-Term Bond Portfolio			0.87	1.92	3.52	4.05	3.47	5/13/94			0.77	12/31/10
Mid-Cap Growth Portfolio			-1.23	37.63	8.39	7.81	7.78	12/31/96			0.85	12/31/10
New America Growth Portfolio			-0.62	36.92	6.61	7.15	3.67	3/31/94			0.85	12/31/10
Personal Strategy Balanced Portfolio			0.64	23.12	5.31	4.89	5.66	12/30/94			1.00	12/31/10
Prime Reserve Portfolio[7]		-0.55%	-0.14	-0.49	0.00	1.52	1.42	12/31/96			0.55	12/31/10

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6 **A prospectus is available to existing clients who are considering an exchange into a new portfolio. The prospectus includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing. The T. Rowe Price No-Load Variable Annuity (Variable Annuity) is issued by Security Benefit Life Insurance Company (Form V6021). In New York, it is issued by First Security Benefit Life Insurance and Annuity Company of New York, White Plains, New York (FSB201(11-96)). (Security Benefit Life is not licensed in New York and does not solicit business in New York.)** The yields and performance figures are based on the accumulation unit value (AUM) of the Variable Annuity subaccounts. Variable Annuity subaccount performance reflects a hypothetical contract and includes the effects of a mortality and expense risk charge of 0.55% on an annualized basis. The inception date relates to the date the portfolios were available as investment options in the Variable Annuity. The Variable Annuity, which has been available since April 1995 and in New York since November 1995, has limitations; contact your representative. It is distributed by T. Rowe Price Investment Services, Inc.; T. Rowe Price Insurance Agency, Inc.; and T. Rowe Price Insurance Agency of Texas, Inc. The underlying portfolios are managed by T. Rowe Price Associates, Inc. The Security Benefit Group of companies and the T. Rowe Price companies are not affiliated. The Variable Annuity may not be available in all states.

7 The 7-day unsubsidized simple yield for the Prime Reserve Portfolio was -0.78% as of June 30, 2011. In an effort to maintain a zero or positive net yield for the underlying portfolio of the Variable Annuity subaccount, T. Rowe Price has voluntarily waived all or a portion of the management fee it is entitled to receive from the underlying portfolio. This voluntary waiver is in addition to any contractual expense ratio limitation in effect for the underlying portfolio and may be amended or terminated at any time without prior notice. A fee waiver has the effect of increasing the underlying portfolio's and subaccount's net yield; without it, the underlying portfolio's and subaccount's 7-day yield would have been lower.

Indexes included in this update track the following: S&P 500—500 large-company U.S. stocks; S&P MidCap 400—stocks of 400 mid-size U.S. companies; Nasdaq Composite (principal only)—U.S. stocks traded in the over-the-counter market; Russell 2000—stocks of 2,000 small U.S. companies; MSCI EAFE—stocks of about 1,000 companies in Europe, Australasia, and the Far East; MSCI Emerging Markets—more than 850 stocks traded in over 20 emerging markets; Barclays Capital U.S. Aggregate—investment-grade corporate and government bonds; Barclays Capital Municipal Bond—tax-free investment-grade U.S. bonds; Credit Suisse High Yield—noninvestment-grade corporate U.S. bonds; Barclays Capital Global Aggregate ex U.S. Dollar Bond—investment-grade government, corporate, agency, and mortgage-related bonds in markets outside the U.S.; J.P. Morgan Emerging Markets Bond–Global—U.S. dollar-denominated Brady Bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities; Lipper averages—all funds in each investment objective category; and Lipper indexes—equally weighted indexes of typically the 30 largest mutual funds within their respective investment objective categories. It is not possible to invest directly in an index.

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Charts and examples in this issue showing investment performance (excluding those in the Performance Update section) are for illustrative purposes only and do not reflect the performance of any T. Rowe Price fund or security. A manager's view of the attractiveness of a company may change, and the fund could sell the holding at any time. This material should not be deemed a recommendation to buy or sell shares of any of the securities discussed. *Past performance cannot guarantee future results.*

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