

SECURITIES AND EXCHANGE COMMISSION

FORM N-1A EL

Registration statements of open end management investment companies

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FILER

PRICE T ROWE PERSONAL STRATEGY FUNDS INC

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BALTIMORE MD 21202

Business Address
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ASSOCIATES INC
100 EAST PRATT ST
BALTIMORE MD 21202
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 / X /
 Pre-Effective Amendment No. / / / /
 Post-Effective Amendment No. / /

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 / X /
 Amendment No. / /

T. ROWE PRICE PERSONAL STRATEGY FUNDS, INC.

 (Exact name of Registrant as Specified in Charter)
 100 East Pratt Street, Baltimore, Maryland 21202

 (Address of Principal Executive Offices) (Zip Code)
 Registrant's Telephone Number, Including Area Code 410-547-2000

Henry H. Hopkins
 100 East Pratt Street
 Baltimore, Maryland 21202

 (Name and Address of Agent for Service)

Approximate Date of Proposed Public Offering June 30, 1994

It is proposed that this filing will become effective (check appropriate box):

/___/ immediately upon filing pursuant to paragraph (b)

/___/ on (date) pursuant to paragraph (b)

/___/ 60 days after filing pursuant to paragraph (a)

/___/ on (date) pursuant to paragraph (a) of Rule 485

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933+

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee

Capital Stock - \$.0001 Indefinite par value per share	Number	Varying prices calculated as set forth in prospectus	\$500
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The purpose of this Registration Statement is to register the Registrant under the Investment Company Act of 1940, to register the shares of the Registrant under the Securities Act of 1933 and to declare pursuant to Section 24(f) of the Investment Company Act of 1940 and Rule 24f-2 thereunder that an indefinite number of its securities is being registered by this Registration Statement.

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The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a) may determine.

SUBJECT TO COMPLETION

Information contained herein is subject to completion or amendment. A Registration Statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the Registration Statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

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PERSONAL STRATEGY FUNDS

CROSS REFERENCE SHEET

N-1A Item No.	Location
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PART A

Item 1. Cover Page	Cover Page
Item 2. Synopsis	Transaction Costs and Expenses
Item 3. Condensed Financial Information	+
Item 4. General Description of Registrant	About the Funds; Fund and Market Characteristics: What to Expect; Understanding Fund Performance; Investment Programs and Practices
Item 5. Management of the Fund	Transaction Costs and

		Expenses; The Funds' Organization and Management
Item 6.	Capital Stock and Other Securities	Useful Information on Distributions and Taxes; The Funds' Organization and Management
Item 7.	Purchase of Securities Being Offered	Pricing Shares and Receiving Sale Proceeds; Transaction Procedures and Special Requirements; Meeting Requirements for New Accounts; Shareholder Services
Item 8.	Redemption or Repurchase	Pricing Shares and Receiving Sale Proceeds; Transaction Procedures and Special Requirements; Shareholder Services
Item 9.	Pending Legal Proceedings	+
	PART B	
Item 10.	Cover Page	Cover Page
Item 11.	Table of Contents	Table of Contents
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Item 12.	General Information and History	+
Item 13.	Investment Objectives and Policies	Investment Objectives and Policies; Investment Program; Investment Restrictions; Yield Information; Investment Performance
Item 14.	Management of the Registrant	Management of the Funds
Item 15.	Control Persons and Principal Holders of Securities	Principal Holders of Securities
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Item 16.	Investment Advisory and Other Services	Investment Management Services; Custodian; Independent Accountants; Legal Counsel
Item 17.	Brokerage Allocation	Portfolio Transactions
Item 18.	Capital Stock and Other Securities	Dividends; Organization of the Funds
Item 19.	Purchase, Redemption and Pricing of Securities Being Offered	Pricing of Securities; Net Asset Value Per Share; Redemptions in Kind; Federal and State Registration of Shares

Item 20.	Tax Status	Tax Status
Item 21.	Underwriters	Distributor for the Funds
Item 22.	Calculation of Yield Quotations of Money Market Funds	+
Item 23.	Financial Statements	+

PART C

Information required to be included in Part C is set forth under the appropriate item, so numbered, in Part C to this Registration Statement

+Not applicable or negative answer

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Facts At A Glance

Investment Goals

Each of the three funds seeks the highest total return over time consistent with its particular investment strategy and level of potential risk. There is no assurance the funds will achieve their objective.

Strategies and Risk/Reward Potential

Each fund will invest in a diversified portfolio of stocks, bonds, and money market securities. The investment mix will be shifted gradually within specified ranges for each fund according to the manager's outlook for the economy and the financial markets.

Generally, the higher the fund's stock component, the greater the potential risk (share-price volatility) and reward (total return

T. Rowe Price

Personal Strategy Funds, Inc.
July 1, 1994

CONTENTS

1	About the Personal Strategy Funds Transaction Costs and fund Expenses..... Fund and Market Characteristics.....
2	About Your Account Pricing Shares; Receiving Sale Proceeds..... Distributions and Taxes..... Transaction Procedures and Special Requirements.....
3	More About the Funds Organization and Management..... Understanding Fund Performance..... Investment Program and Practices.....

performance).

o Income Fund. For greater stability, 50% to 70% of assets invested in bonds and money market securities with the balance in stocks. Risk/Reward Potential: Lower risk and return than the other two funds.

o Balanced Fund. For both appreciation and income, 50% to 70% of assets invested in stocks with the remainder in bonds and money market securities. Risk/Reward Potential: Higher risk and return than the

- 4 Investing with T. Rowe Price Meeting Requirements for New Accounts.....
- Opening a New Account...
- Purchasing Additional Shares.....
- Exchanging and Redeeming.....
- Shareholder Services...

This prospectus contains information you should know before investing. Please keep it for future reference. A Statement of Additional Information about the Funds, dated July 1, 1994, has been filed with the Securities and Exchange Commission and is

Income Fund but less than the Growth Fund.

o Growth Fund. For greater appreciation, 70% to 90% of assets invested in stocks, with the balance in bonds and money market securities. Risk/Reward Potential: Highest expected risk and return of the three funds.

incorporated by reference in this prospectus. To obtain a free copy, call 1-800-638-5660.

Investor Profile
Individuals who seek to match

their investment goals and risk tolerance with a single investment that diversifies across several asset categories. Appropriate for both regular and tax-deferred accounts, such as IRAs.

Fees and Charges

100% no-load. No fees or charges to buy or sell shares or to reinvest dividends; no 12b-1 marketing fees; free telephone exchange.

Investment Manager

Founded in 1937 by the late Thomas Rowe Price, Jr., T. Rowe Price Associates, Inc. ("T.Rowe Price") and its affiliates currently manage over \$53 billion for approximately two and a half million individual and institutional investors.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION, OR ANY STATE SECURITIES COMMISSION, PASSED UPON THE ACCURACY OR ADEQUACY

OF THIS PROSPECTUS. ANY
REPRESENTATION TO THE CONTRARY
IS A CRIMINAL OFFENSE.

About the Personal
Strategy Funds

Transaction Costs and Fund Expenses

These tables should help you understand the kinds of expenses you will bear directly or indirectly as a fund shareholder.

The first part of the table, "Shareholder Transaction Costs" shows that you pay no sales charges. All the money you invest in a fund goes to work for you, subject to the fees explained below.

Fund Expenses

Shareholder Transaction Costs

Sales load "charge" on purchases	None
----------------------------------	------

Sales load "charge" on reinvested dividends	None
---	------

Redemption fees	None
-----------------	------

Exchange fees	None
---------------	------

Annual Mutual Fund Expenses	Percentage of Fiscal 1995 Average Net Assets
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Balanced Growth Income

Management fee	0. __ %**	0. __ %**	0. __ %**
----------------	-----------	-----------	-----------

(after reduction)

Total other (Shareholder servicing, custodial auditing, etc.)	0. __%	0. __%	0. __%
Distribution fees (12b-1)	None	None	None
Total fund expenses	0. __%**	0. __%**	0. __%**

*The funds charge a \$5 fee for wire

redemptions which can be changed without notice.

**To limit each fund's expenses during its initial period of operations, T. Rowe Price has agreed to bear any expenses through May 31, 1996, which would cause the Balanced, Growth or Income Funds' ratio of expenses to average net assets to exceed __%, __% and __%, respectively. Expenses paid or assumed under this agreement are subject to reimbursement to T. Rowe Price by each fund whenever the fund's expense ratio is below the previously stated ratio; however, no reimbursement will be made after May 31, 1998, or if it would result in the expense ratio exceeding the ratio as previously stated. Without this expense limitation, it is estimated each fund's management fee and total expense ratio for the first period of operation would be __%, __% and

__% and __%, __% and __% for the Balanced, Growth and Income Funds, respectively. Organizational expenses will be charged to the funds over a period not to exceed 60 months.

Table 1

The second half of Table 1, "Annual Mutual Fund Expenses," provides an estimate of how much it will cost to operate each fund for a year, based on 1995 fiscal year expenses (and any expense limitations described above). These are costs you pay indirectly, because they are deducted from the fund's total assets before the daily share price is calculated and before dividends and other distributions are made. In other words, you will not see these expenses on your account statement.

The main types of expenses, which all mutual funds may charge against fund assets, are:

- o A management fee: the percent of fund assets paid to the fund's investment manager. Each fund's fee comprises a

group fee, discussed later, and an individual fund fee, as follows: Balanced .__%, Growth .__% and Income .__%.

- o "Other" administrative expenses:

primarily the servicing of shareholder accounts, such as providing statements, reports, disbursing dividends, as well as custodial services. For the period ended May 31, 1995, the funds are expected to pay the fees shown in Table 2 to T. Rowe Price Services, Inc. for transfer and dividend disbursing functions and shareholder services; T. Rowe Price Retirement Plan Services, Inc. for recordkeeping services for certain retirement plans; and T. Rowe Price for fund accounting services.

Service Fees Paid

Transfer Agent Subaccounting Accounting Services

Balanced

Growth

Income

Table 2

o Marketing or distribution fees: an annual charge ("12b-1") to existing shareholders to defray the cost of selling shares to new shareholders. T. Rowe Price funds do not levy 12b-1 fees. For further details on fund expenses, please see "The Funds' Organization and Management."

Hypothetical example: Assume you invest at least \$1,000, the Fund returns 5% annually, expense ratios remain as previously listed, and you close your account at the end of the time periods shown. Your expenses per \$1,000 invested would be:

The table at right is

Fund	1	3	5	10
------	---	---	---	----

just an example, and actual expenses can be higher or lower than those shown.

Year Years Years Years

Balanced

Growth

Income

Table 3

Generally, the greater the portion of total return derived from stocks, the higher the fund's potential return over time and the greater the risk of interim price declines.

FUND AND MARKET CHARACTERISTICS

This section takes a closer look at each fund's investment program as well as some fundamentals of stock, bond, and money market investing.

What are the objectives of each portfolio?

- o Income Fund: The objective is to provide the highest total return consistent with a primary emphasis on income and a secondary emphasis on capital appreciation. The fund pursues this objective by investing in a diversified portfolio typically consisting of 40% stocks, 40% bonds, and 20% money market securities. Allocations can vary by 10% above or below these ranges based on the fund manager's outlook for the economy and the financial markets.

- o Balanced Fund: The objective is to provide the highest total return consistent with an emphasis on both capital appreciation and income. The fund pursues this objective by investing in a diversified portfolio typically consisting of 60% stocks, 30% bonds, and 10% money market securities. Allocations can vary by 10% above or below these ranges based on the fund manager's

outlook for the economy and the financial markets.

- o Growth Fund: The objective is to provide the highest total return consistent with a primary emphasis on capital appreciation; income is expected to play

a secondary role. The fund pursues this objective by investing in a diversified portfolio typically consisting of approximately 80% stocks and 20% bonds. Based on the fund manager's outlook for the economy and the financial markets, the allocation for stocks and bonds, respectively, can vary by 10% above or below these ranges and, for money market securities, can rise to 20%.

Why have three Personal Strategy Funds?
Generally, the potential for higher investment returns over time is accompanied by higher investment risk -- the risk of periodic declines in the value of your principal. Investors respond differently to this risk/reward trade-off; some are comfortable with higher risk levels, while others are not. And, for example, investors who seek a more aggressive approach at a particular stage of their lives may prefer a more balanced or conservative approach at another stage as their circumstances or investment objectives change.

To accommodate a wider range of investor preferences and time horizons than would be possible with a single fund, these funds offer three different combinations of the appreciation potential of common stocks and the greater income and stability of bonds and money market securities. These allocation mixes represent three distinct levels of potential returns and investment risk.

SEE APPENDIX A

What are the advantages of diversifying across stocks, bonds, and money market securities?

Diversification is the investment equivalent of not putting all your eggs in one basket. By spreading investments across several types of assets, a fund's overall volatility should be reduced. Since prices of stocks and bonds may respond differently

None of these funds should be relied upon for short-term financial needs nor be used to play

short-term swings in the stock or bond markets.

to changes in economic conditions and interest rate levels, a rise in bond prices, for example, could help offset a fall in stock prices. Money market securities have a stabilizing influence, since their price fluctuations are very small. In addition, the steady income provided by bonds and money market securities contributes positively to a portfolio's total return, cushioning the impact of any price declines or enhancing

price increases.

This asset allocation strategy reduces the risks associated with investing in a single asset category; however, there is no guarantee the strategy will always result in lower overall volatility for the funds.

What are the general characteristics and risk factors of these major asset classes?

0 Stocks represent ownership in a corporation. Common stock prices fluctuate with changes in a company's current earnings and future prospects and with overall stock market conditions. Common stocks have provided higher returns over time than bonds or money market securities. In addition, stock investments historically have provided the greatest protection against the erosion of value caused by inflation. However, the potential for higher returns is accompanied by higher risk, and stocks are generally more volatile than other asset classes.

The fund manager regularly reviews the asset allocation and may make gradual changes, within the defined ranges, based on the outlook for the economy, interest rates, and the financial markets. The funds will not attempt to

Stocks of many well-established corporations offer the potential for appreciation and rising dividends. While smaller companies usually reinvest earnings in their own growth and, therefore, pay minimal or no dividends, they offer the possibility of even greater appreciation if their businesses prosper and grow. However, their higher return potential is accompanied by greater risk that their stock prices will

time short-term market
moves.

decline.

- 0 Bonds are debt securities, meaning the issuer has a contractual obligation to pay interest at a fixed rate on specified dates and to repay principal (the bond's face value) upon maturity. There are two main sources of risk. Credit risk refers to the possibility that a bond's price may fall due to a credit downgrade or "default," i.e., the issuer fails to make an interest or principal payment. Interest rate risk refers to a bond's price movement in response to changes in interest rates. When rates rise, bond prices fall, and vice versa. Generally, the longer a bond's maturity, the greater its potential price fluctuation.

Please see "High Yield/High Risk Investing" for further information on these investments.

The funds expect to invest primarily in bonds with investment-grade credit ratings. Investment-grade securities include a range of securities from the highest rated (AAA) to medium quality (BBB). Securities in the BBB category may be more susceptible to adverse economic conditions or changing circumstances and the securities at the lower end of the BBB category have certain speculative characteristics. Prices of below-investment-grade (or "junk") bonds are usually more affected by adverse economic conditions or a deterioration in the issuer's financial circumstances than by overall changes in interest rates. To compensate investors for higher credit risk exposure, such bonds usually provide higher income. Please see "High Yield/High Risk Investing" for further information on these investments.

For a detailed discussion of security characteristics and risk factors, please see

- 0 Money market securities are debtPlease see "High Yield/High Risk Investing" for further information on these investments. obligations issued primarily by the U.S. Government, Government agencies, and

Practices."

short maturities, and high liquidity of money market securities minimize their credit and market risk. Their low risk is usually accompanied by low potential returns relative to other investments.

For a discussion of the effect of currency exchange rate fluctuations and other special risks of foreign investing, please see "Investment Program and Practices."

Why include foreign securities?

Foreign stocks and bonds offer two advantages to a portfolio: extra diversification and the potential for enhanced returns. Since foreign stock and bond markets may move independently from their U.S. counterparts, such investments could reduce a portfolio's short-term price fluctuations while offering a way to participate in markets that may generate superior returns.

How does the portfolio manager try to reduce risk and increase returns?

Consistent with each fund's objective, the managers of the Personal Strategy Funds seek to reduce risk and increase total return. Risk management tools include:

- 0 broad asset diversification, as discussed previously, to reduce the impact of a single holding or asset class on the fund's share price;
- 0 gradual allocation changes among and within asset classes (stocks, bonds, etc.) to take advantage of market opportunities and changing economic

conditions;

0 thorough research of stocks, bonds, and other securities by our analysts to find the most favorable investment opportunities.

The fund or funds you select should reflect your individual investment goals, but should not be relied upon for short-term financial needs or represent your complete investment program.

How can I decide which fund is most appropriate for me?

Review your own financial objectives, investment time horizon, and risk tolerance. Use the table below, which summarizes the funds' main characteristics, to choose a fund (or funds) suitable for your particular needs.

0 The Income Fund is designed for more

conservative investors who value the relative stability provided by substantial investments in income-producing securities but also seek some capital growth.

0 The Balanced Fund is intended for those seeking a middle-of-the road approach that emphasizes stocks for their higher capital appreciation potential but retains a significant income component to temper volatility.

0 The Growth Fund, with the greatest exposure to stocks, is designed for more aggressive investors who can ride out the market's inevitable setbacks to participate in its potential long-term rewards.

To review some investing ground rules or to gain a more accurate picture of your own investment objectives, we suggest you use the Investment Guide you may have received with this prospectus, or call 1-800-638-5660 to request the Guide.

Differences among funds

Fund	Benchmark	Asset Allocation Range	Risk/Reward
Income	40%	30 - 50% stocks	Lowest
	40	30 - 50 bonds	
	20	10 - 30 money markets	
Balanced	60	50 - 70% stocks	Moderate
	30	20 - 40 bonds	
	10	0 - 20 money markets	
Growth	80	70 - 90% stocks	Highest
	20	10 - 30 bonds	
	0	0 - 20 money markets	

Is there other information I need to review before making a decision?

Be sure to review "Investment Program and Practices" in Section 3, which reviews the following topics: the types of securities in which the funds invest including--bonds,

common and preferred stocks, convertible securities and warrants, foreign

securities, asset-backed securities, mortgage-backed securities, hybrid instruments, zero coupon and pay-in-kind bonds and private placements--and the types of management practices with regard to-- cash position, borrowing money and transferring assets, futures and options, interest rate swaps, managing foreign currency risk, lending of portfolio securities, when-issued securities and forward commitment contracts, portfolio transactions, highyield/high risk investing and credit quality considerations.

2 About Your Account

Pricing Shares and Receiving Sale Proceeds

Here are some procedures you should know when investing in a fund.

The various ways you can buy, sell, and exchange shares are explained at the end of this prospectus and on the New Account Form.

How and when shares are priced

The share price (also called "net asset value" or NAV per share) for each fund is calculated at 4 p.m. ET each day the New York Stock Exchange is open for business. To calculate the NAV, a fund's assets are priced and totaled, liabilities are subtracted, and the balance, called net assets, is divided by the number of shares outstanding.

How your purchase, sale, or exchange price is determined

If we receive your request in correct form before 4 p.m. ET, your transaction will be priced at that day's NAV. If we receive it after 4 p.m., it will be priced at the next business day's NAV.

We cannot accept orders that request a particular day or price for your transaction or any other special conditions.

When filling out the New

Note: The time at which transactions are priced may be changed in case of an

Account Form, you may wish to give yourself the widest range of options for receiving proceeds from a sale.

If for some reason we cannot accept your request to sell shares, we will contact you.

emergency or if the New York Stock Exchange closes at a time other than 4 p.m. ET.

How you can receive the proceeds from a sale

If your request is received by 4 p.m. ET in correct form, proceeds are usually sent on the next business day. Proceeds can be sent to you by mail, or to your bank account by ACH transfer or bank wire. Proceeds sent by bank wire should be credited to your bank account the next business day, and proceeds sent by ACH transfer should be credited the second day after the sale.

Exception:

- o Under certain circumstances and when deemed to be in the fund's best interests, your proceeds may not be sent for up to five business days after receiving your sale or exchange request. If you were exchanging into a bond or money fund, your new investment would not begin to earn dividends until the sixth business day.

Useful Information on Distributions and Taxes

The funds distribute all net investment income and realized capital gains to shareholders.

Dividends and other distributions
Dividend and capital gain distributions are reinvested in additional fund shares in your account unless you select another option on your New Account Form. The advantage of reinvesting distributions arises from compounding; that is, you

receive interest and capital gain distributions on a rising number of shares.

Dividends not reinvested are paid by check or transmitted to your bank account via ACH. If the Post Office cannot deliver your check, or if your check remains uncashed for six months, a fund reserves the right to reinvest your distribution check in your account at the then current

NAV and to reinvest all subsequent distributions in shares of the fund.

Income dividends

- o The Balanced and Income Funds declare and pay dividends (if any) quarterly.
- o The Growth Fund declares and pays dividends (if any) annually.
- o All or part of a fund's dividends will be eligible for the 70% deduction for dividends received by corporations.

Capital gains

- o A capital gain or loss is the difference between the purchase and sale price of a security.
- o If the fund has net capital gains for the year (after subtracting any capital losses), they are usually declared and paid in December to shareholders of

record on a specified date that month.

The funds send timely information for your tax filing needs.

Tax information

You need to be aware of the possible tax consequences when

- o the fund makes a distribution to your account, or
- o you sell fund shares, including an exchange from one fund to another.

The funds furnish average cost and capital gain (loss) information on most share redemptions.

Taxes on fund redemptions.

When you sell shares in any fund, you may realize a gain or loss. An exchange from one fund to another is still a sale for tax purposes.

In January, the funds will send you and the IRS Form 1099-B, indicating the date and amount of each sale you made in the fund during the prior year. We will also tell you the average cost of the shares you sold during the year. Average cost information is not reported to the IRS, and you do not

have to use it. You may calculate the cost basis using other methods acceptable to the IRS, such as "specific identification."

To help you maintain accurate records, we send you a confirmation immediately following each transaction you make and a year-end statement detailing all your

transactions in each fund account during the year.

Distributions are taxable whether reinvested in additional shares or received in cash.

Taxes on fund distributions. The following summary does not apply to retirement accounts, such as IRAs, in the funds, which are tax-deferred until you withdraw money from them.

In January, the funds will send you and the IRS Form 1099-DIV indicating the tax status of any dividend and capital gain

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distribution made to you. All distributions made by these funds are taxable to you for the year in which they were paid. The only exception is that distributions declared during the last three months of the year and paid in January are taxed as though they were paid by December 31. Dividends and distributions are taxable to you regardless of whether they are taken in cash or reinvested. The funds will send you any additional information you need to determine your taxes on fund distributions, such as the portion of your dividend, if any, that may be exempt from state income taxes.

Short-term capital gains are taxable as ordinary income and long-term gains are taxable at the applicable long-term gain rate. The gain is long or short term depending on how long the fund held the securities, not how long you held shares in the fund.

Distributions resulting from the sale of certain foreign currencies and debt securities, to the extent of foreign exchange gains, are taxed as ordinary income or loss. If the fund pays nonrefundable taxes to foreign governments during the year, the taxes will reduce the fund's dividends.

Tax effect of buying shares before a capital gain distribution. If you buy shares near or on the "record date"--the date that establishes you as the person to receive the upcoming distribution--you will receive in the form of a taxable distribution a portion of the money you just invested. Therefore, you may wish to find out a fund's record date(s) before investing. Of course, the fund's share price may reflect undistributed capital gains or unrealized appreciation at any time.

Transaction Procedures and Special Requirements

Purchase Conditions

Following these procedures helps assure timely and accurate transactions.

Nonpayment. If your payment is not received or you pay with a check or ACH transfer that does not clear, your purchase will be cancelled. You will be responsible for any losses or expenses incurred by the fund or transfer agent, and the fund can redeem shares you own in this or another identically registered T. Rowe Price fund as reimbursement. The fund and its agents have the right to reject or cancel any purchase, exchange, or redemption due to nonpayment.

U.S. dollars. All purchases must be paid for in U.S. dollars; checks must be drawn on U.S. banks.

Sale (Redemption) Conditions

10-day hold. If you sell shares that you just purchased and paid for by check or ACH

transfer, the fund will redeem your shares at the price on the day the request is received, but will generally delay sending you the proceeds for up to 10 calendar days to allow the check or transfer to clear. If you requested a redemption by mail or mailgram, the proceeds will be mailed no later than the seventh day following receipt unless the check or ACH transfer has not cleared. (The 10-day hold does not apply to purchases paid for by: bank wire; cashier's, certified, or treasurer's checks; or automatic purchases through your paycheck.)

Telephone Transactions. Telephone exchange and redemption are established automatically when you sign the New Account Form unless you check the box which states that you do not want these services. The fund uses reasonable procedures (including shareholder identity verification) to confirm that instructions given by telephone are genuine. If these procedures are not followed, it is the opinion of certain regulatory agencies that a fund may be liable for any losses that may result from acting on the instructions given. All conversations are recorded, and a

confirmation is sent within five business days after the telephone transaction.

Redemptions over \$250,000. Large sales can adversely affect a portfolio manager's ability to implement a fund's investment strategy by causing the premature sale of securities that would otherwise be held. If in any 90-day period, you redeem (sell) more than \$250,000, or your sale amounts to more than 1% of the fund's net assets, the fund has the right to delay sending your proceeds for up to five business days after receiving your request, or to pay the difference between the redemption amount and the lesser of the two previously mentioned figures with securities from the fund.

T. Rowe Price may bar excessive traders from purchasing shares.

Excessive Trading

Frequent trades involving either substantial fund assets or a substantial portion of your account or accounts controlled by you, can disrupt management of the fund and raise its expenses. We define "excessive trading" as exceeding one purchase and sale involving the same fund within any 120-day period.

For example, you are in fund A. You can move substantial assets from A to fund B, and, within the next 120 days, sell your shares in fund B to return to fund A or

move to fund C.

If you exceed the number of trades described above, you may be barred indefinitely from further purchases of T. Rowe Price funds.

Three types of transactions are exempt from excessive trading guidelines: 1) trades solely between money market funds, 2) redemptions that are not part of exchanges, and 3) systematic purchases or redemptions (see "Shareholder Services").

Keeping Your Account Open

Due to the relatively high cost of maintaining small accounts, we ask you to maintain an account balance of at least \$1,000. If your balance is below \$1,000 for three months or longer, the fund has the right to close your account after giving you 60 days in which to increase your balance.

Signature Guarantees

You may need to have your signature guaranteed in certain situations, such as:

- o Written requests to 1) redeem over \$50,000 or 2) wire redemption proceeds.
- o Remitting redemption proceeds to any person, address, or bank account not on record.

A signature guarantee is designed to protect you and the fund from fraud by verifying your signature.

- o Transferring redemption proceeds to a T. Rowe Price fund account with a different registration from yours.
- o Establishing certain services after the account is opened.

You can obtain a signature guarantee from most banks, savings institutions, broker/dealers and other guarantors acceptable to T. Rowe Price. We cannot accept guarantees from notaries public or organizations that do not provide reimbursement in the case of fraud.

3 More About the Funds

Shareholders benefit from T. Rowe Price's 56 years of investment management experience.

The Funds' Organization and Management

How are the funds organized?

The T. Rowe Price Personal Strategy Funds Corporation is a diversified, open-end investment company incorporated in Maryland in 1994. The Corporation currently consists of three series, each representing a separate class of shares. The Corporation's charter provides that the Board of Directors may issue additional series of shares and/or additional classes of shares for each series.

What is meant by "shares"?

As with all mutual funds, investors purchase "shares" when they invest in a fund. These shares are part of a fund's authorized capital stock, but share certificates are not issued.

Each share and fractional share entitles the shareholder to:

- o receive a proportional interest in a fund's and capital gain distributions;
- o cast one vote per share on certain fund matters, including the election of fund directors, changes in fundamental policies, or approval of changes in a fund's management contract.

Does each fund have an annual shareholder meeting?

The funds are not required to hold meetings but will do so when certain matters, such as a change in a fund's fundamental policies, are to be decided. In addition, shareholders representing at least 10% of all eligible votes may call a special meeting if they wish for the purpose of voting on the removal of any fund director(s). If a meeting is held and you cannot attend, you can vote by proxy. Well before the meeting, the fund will send you proxy materials that explain the issues to be decided and include a voting card for you to mail back.

All decisions regarding the purchase and sale of fund investments are made by T. Rowe Price Associates—specifically by the funds' portfolio managers.

Who runs the funds?

General Oversight. The funds are governed by a Board of Directors that meets regularly to review the fund's investments, performance, expenses, and other business affairs. The Board elects the funds' officers.

Portfolio Management. Each fund has an Investment Advisory Committee, whose members are listed below. Each Committee Chairman has day-to-day responsibility for managing the portfolio and works with the Committee in developing and executing the fund's investment program. The funds' Board of Directors has authorized T. Rowe Price to use certain brokers indirectly related to T. Rowe Price in connection with

the execution of each fund's portfolio transactions.

Balanced Fund.

Growth Fund.

Income Fund.

Marketing. T. Rowe Price Investment

Services, Inc., a wholly-owned subsidiary of T. Rowe Price, distributes (sells) shares of these and all other T. Rowe Price funds.

Shareholder Services. T. Rowe Price Services, Inc., another wholly-owned subsidiary, acts as the funds' transfer and dividend disbursing agent and provides shareholder and administrative services. Services for certain types of retirement plans are provided by T. Rowe Price Retirement Plan Services, Inc., also a wholly-owned subsidiary. The address for each is 100 East Pratt St., Baltimore, MD 21202.

How are fund expenses determined?

The management agreement spells out the expenses to be paid by the fund. In

addition to the management fee, the fund pays for the following: shareholder service expenses; custodial, accounting, legal, and audit fees; costs of preparing and printing prospectuses and reports sent to shareholders; registration fees and expenses; proxy and annual meeting expenses (if any); and director/trustee fees and expenses.

The Management Fee. This fee has two parts -- an "individual fund fee" (discussed on page 2) which reflects the fund's particular investment management costs, and a "group fee." The group fee, which reflects the benefits each fund derives from sharing the resources of the T. Rowe Price investment management complex, is calculated monthly based on the net combined assets of all T. Rowe Price funds (except Equity Index and both Spectrum funds). The fee schedule (shown below) is graduated, declining as the asset total rises, so shareholders benefit from the overall growth in mutual fund assets.

0.480% First \$1 billion
0.450% Next \$1 billion

0.420% Next \$1 billion
0.390% Next \$1 billion
0.370% Next \$1 billion
0.360% Next \$2 billion
0.350% Next \$2 billion

0.340% Next \$5 billion
0.330% Next \$10 billion
0.320% Next \$10 billion
0.310% Thereafter

Based on combined Price funds' assets of approximately \$34.9 billion at March 31, 1994, the Group Fee was 0.34%.

Understanding Performance Information

This section should help you understand the terms used to describe the funds' performance. You will come across them in shareholder reports you receive from us four times a year, in our newsletters, "Insights" reports, in T. Rowe Price advertisements, and in the media.

Total return is the most widely used performance measure. Detailed performance information is included in the funds' annual reports and quarterly shareholder reports.

Total Return

This tells you how much an investment in a fund has changed in value over a given time period. It reflects any net increase or decrease in the share price and assumes that all dividends and capital gains (if any) paid during the period were reinvested in additional shares. Reinvesting distributions means that total return numbers include the effect of compounding, i.e., you receive income and capital gain distributions on a rising number of shares.

Advertisements for the fund may include cumulative or compound average annual total return figures, which may be compared with various indices, other performance measures, or other mutual funds.

Cumulative Total Return

This is the actual rate of return on an investment for a specified period. A cumulative return does not indicate how much the value of the investment may have

fluctuated between the beginning and the end of the period specified.

Average Annual Total Return

This is always hypothetical. Working backward from the actual cumulative return, it tells you what constant year-by-year return would have produced the actual, cumulative return. By smoothing out all the variations in annual performance, it gives you an idea of the investment's annual contribution to your portfolio provided you held it for the entire period in question.

Investment Program and Practices

This section takes a detailed look at some of the securities the funds may hold in their portfolios and the various kinds of investment practices that may be used in day-to-day portfolio management. The funds' investment programs are subject to further restrictions and risks described in the Statement of Additional Information.

Shareholder approval is required to substantively change a fund's objective and certain investment restrictions noted in the following section as "fundamental policies." The managers also follow certain "operating policies" which can be changed without shareholder approval. However, significant changes are discussed with shareholders in fund reports.

Types of Portfolio Securities

Fund managers have considerable leeway in choosing investment

In seeking to meet its investment objective, the funds may invest in any type of security whose investment characteristics are consistent with the

strategies and selecting securities they believe will help the funds achieve their objectives.

fund's investment program. These and some of the other investment techniques the funds may use are described in the following pages.

Fundamental Policy. A fund will not purchase a security if, as a result, with

respect to 75% of the fund's total assets, more than 5% of its total assets would be invested in securities of the issuer or more than 10% of the voting securities of the issuer would be held by the fund.

Bonds. A bond is an interest-bearing security - an IOU - issued by companies or governmental units. The issuer has a contractual obligation to pay interest at a stated rate on specific dates and to repay principal (the bond's face value) on a specified date. An issuer may have the right to redeem or "call" a bond before maturity, and the investor may have to reinvest the proceeds at lower market rates.

A bond's annual interest income, set by its coupon rate, is usually fixed for the life of the bond. Its yield (income as a percent of current price) will fluctuate to reflect changes in interest rate levels. A bond's price rises when interest rates fall, and vice versa so its yield stays current.

Bonds may be secured (backed by specified collateral) or unsecured (backed by the issuer's general creditworthiness).

Certain bonds have interest rates that are adjusted periodically in order to minimize fluctuations of their principal value. The maturity of those securities may be shortened under certain specified conditions.

Bonds may be designated as senior, junior, or subordinated obligations. Senior obligations have a prior claim on a corporation's earnings and assets and, in the event of liquidation, are prepaid before junior or other debt.

Operating Policy. Balanced Fund: At least 25% of the fund's total assets must be senior fixed income securities.

Common and Preferred Stocks. Stocks represent shares of ownership in a company. Generally, preferred stock has a specified dividend and ranks after bonds and before common stocks in its claim on income for dividend payments and on assets should the company be liquidated. After other claims are satisfied, common stockholders participate in company profits on a pro rata basis; profits may be paid out in dividends or reinvested in the company to

help it grow. Increases and decreases in earnings are usually reflected in a company's stock price, so common stocks generally have the greatest appreciation and depreciation potential of all corporate securities. While most preferred stocks pay a dividend, the fund may purchase preferred stock where the issuer has omitted, or is in danger of omitting, payment of its dividend. Such investments would be made primarily for their capital appreciation potential.

Convertible Securities and Warrants. The funds may invest in debt or preferred equity securities convertible into or exchangeable for equity securities. Traditionally, convertible securities have paid dividends or interest at rates higher than common stocks but lower than non-convertible securities. They generally participate in the appreciation or depreciation of the underlying stock into which they are convertible, but to a lesser degree. In recent years, convertibles have been developed which combine higher or lower current income with options and other features. Warrants are options to buy a stated number of shares of common stock at a specified price any time during the life of the warrants (generally, two or more years).

Foreign Securities. The funds may invest in foreign securities. These include non-dollar denominated securities traded outside of the U.S. and dollar denominated

securities traded in the U.S. (such as ADRs). Such investments increase a portfolio's diversification and may enhance return, but they also involve some special risks such as exposure to potentially adverse local political and economic developments; nationalization and exchange controls; potentially lower liquidity and higher volatility; possible problems arising from accounting, disclosure, settlement, and regulatory practices that differ from U.S. standards; and the chance that fluctuations in foreign exchange rates will decrease the investment's value (favorable changes can increase its value).

Operating Policy. Each fund may invest up to 35% of its total assets in foreign securities.

Asset-backed Securities. An underlying pool of assets, such as credit card or automobile trade receivables or corporate loans or bonds, backs these bonds and provides the interest and principal payments to investors. Credit quality depends primarily on the quality of the underlying assets and the level of credit support, if any, provided by the issuer. The underlying assets (i.e., loans) are subject to prepayments which can shorten the securities' weighted average life and may lower their return. The value of these securities also may change because of actual or perceived changes in the creditworthiness of the originator, servicing agent, or of the financial institution providing the credit support.

Mortgage-backed Securities. The funds may invest in a variety of mortgage securities. Mortgage lenders pool individual home mortgages with similar characteristics to back a certificate or bond, which is sold to investors such as the funds. Interest and principal payments generated by the underlying mortgages are passed through to

the investors. The "big three" issuers are

Government National Mortgage Association (GNMA), the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac). GNMA certificates are backed by the full faith and credit of the U.S. Government, while others, such as Fannie Mae and Freddie Mac certificates, are only supported by the ability to borrow from the U.S. Treasury or supported only by the credit of the agency. Private mortgage bankers also issue mortgage-backed securities.

Mortgage securities are subject to regular principal prepayments as homeowners pay down or pay off their mortgages. When interest rates fall, the pace of mortgage refinancings picks up. Refinanced mortgages are paid off at face value (par), causing a loss for any investor who may have purchased the security at a price above par. In such an environment, this risk limits the potential price appreciation of these securities and can negatively affect a fund's net asset value. When rates rise, however, mortgage-backed securities have historically experienced smaller price declines than comparable quality bonds.

Additional mortgage-related securities in which the funds may invest include:

0 Collateralized Mortgage Obligations (CMOs). CMOs are debt securities that are fully collateralized by a portfolio of mortgages or mortgage-backed securities. All interest and principal payments from the underlying mortgages are passed through to the CMOs in such a way as to create more definite maturities than is the case with the underlying bonds. CMOs may pay fixed or variable rates of interest, and certain CMOs have priority over others with respect to the receipt of prepayments.

0 Stripped Mortgage Securities. Stripped

mortgage securities are created by separating the interest and principal payments generated by a pool of mortgage-backed bonds to create two classes of securities. Generally, one class receives only interest payments (IOs) and one principal payments (POs).

IOs and POs are acutely sensitive to interest rate changes and to the rate of principal prepayments. They are very volatile in price and may have lower liquidity than most mortgage-backed securities. Certain CMOs may also exhibit these qualities, especially those which pay variable rates of interest which adjust inversely with and more rapidly

than short-term interest rates. There is no guarantee a fund's investment in CMOs, IOs or POs will be successful, and a fund's total return could be adversely affected as a result.

Operating Policy. Each fund may invest up to 10% of its total assets in stripped mortgage securities.

Hybrid Instruments. These instruments can combine the characteristics of securities, futures and options. For example, the principal amount, redemption or conversion terms of a security could be related to the market price of some commodity, currency or securities index. Such securities may bear interest or pay dividends at below market (or even relatively nominal) rates. Under certain conditions, the redemption value of such an investment could be zero. Hybrids can have volatile prices and limited liquidity and their use by a fund may not be successful.

Operating Policy. Each fund may invest up to 10% of its total assets in hybrid instruments.

Zero Coupon Bonds and Pay-in-Kind Bonds. A zero coupon bond does not make cash

interest payments during the life of the bond. Instead, it is sold at a deep

discount to face value, and the interest consists of the gradual appreciation in price as the bond approaches maturity. "Zeros" can be an attractive financing method for issuers with near-term cash-flow problems. Pay-in-kind (PIK) bonds pay interest in cash or additional securities, at the issuer's option, for a specified period. Like zeros, they may help a corporation economize on cash. PIK prices reflect the market value of the underlying debt plus any accrued interest. Zeros and PIKS can be higher- or lower-quality debt, and both are more volatile than coupon bonds.

Each fund is required to distribute to shareholders income imputed to any zero or PIK investments. Such distributions could reduce a fund's reserve position.

Each fund may invest up to 10% of its total assets in zero coupon and pay-in-kind.

Private Placements (Restricted Securities). These securities are sold directly to a small number of investors, usually institutions. Unlike public offerings, such securities are not registered with the SEC. Although certain of these securities may be readily sold, for example under Rule 144A, the sale of others may involve substantial delays and additional costs.

Operating Policy. Each fund will not invest more than 15% of its net assets in illiquid securities.

Types of Management Practices

Cash Position. Each fund will hold a certain portion of their assets in money market securities, including repurchase agreements, in the two highest rating categories, maturing in one year or less. For temporary, defensive purposes, a fund

may invest without limitation in such securities. This reserve position provides flexibility in meeting redemptions, expenses, and the timing of new investments, and serves as a short-term defense during periods of unusual market volatility.

Borrowing Money and Transferring Assets. The funds can borrow money from banks as a temporary measure for emergency purposes, to facilitate redemption requests, or for other purposes consistent with the fund's investment objectives and program. Such borrowings may be collateralized with fund assets, subject to restrictions.

Fundamental Policy. Borrowings may not exceed 33 1/3% of a fund's total assets.

Operating Policies. Each fund may not transfer as collateral any portfolio securities except as necessary in connection with permissible borrowings or investments, and then such transfers may not exceed 33 1/3% of a fund's total assets. A fund may not purchase additional securities when borrowings exceed 5% of total assets.

Futures and Options. Futures are often used to manage risk, because they enable the investor to buy or sell an asset in the future at an agreed upon price. Options give the investor the right, but not the obligation, to buy or sell an asset at a predetermined price in the future. The funds may buy and sell futures contracts

(and options on such contracts) to manage their exposure to changes in interest rates, stock and bond prices, and foreign currencies; as an efficient means of adjusting their overall exposure to certain markets; and also to adjust the portfolio's duration. The funds may purchase, sell, or write call and put options on securities, financial indices, and foreign currencies.

Futures contracts and options may not always be successful hedges; their prices can be highly volatile; using them could lower the fund's total return and the potential loss from the use of futures can exceed the fund's initial investment in such contracts.

Operating Policies. Futures: Initial margin deposits and premiums on options used for non-hedging purposes will not equal more than 5% of a fund's net asset value. Options on securities: The total market value of securities against which a fund has written call or put options may not exceed 25% of its total assets. A fund will not commit more than 5% of its total assets to premiums when purchasing call or put options.

Interest Rate Swaps. The funds may enter into various interest rate transactions such as interest rate swaps and the

purchase or sale of interest rate caps and floors, to preserve a return or spread on a particular investment or portion of its portfolio, to create synthetic securities, or to structure transactions designed for other non-speculative purposes.

Operating Policy. Each fund will not invest more than 10% of its total assets in interest rate swaps.

Managing Foreign Currency Risk. Investors in foreign securities may "hedge" their exposure to potentially unfavorable currency changes by purchasing a contract to exchange one currency for another on some future date at a specified exchange rate. In certain circumstances, a "proxy currency" may be substituted for the currency in which the investment is denominated, a strategy known as "proxy hedging." Although foreign currency transactions will be used primarily to protect a fund's foreign securities from adverse currency movements relative to the

dollar, they involve the risk that anticipated currency movements will not occur and a fund's total return could be reduced.

Lending of Portfolio Securities. Like other mutual funds, the funds may lend securities to broker-dealers, other institutions, or

other persons to earn additional income. The principal risk is the potential insolvency of the broker-dealer or other borrower. In this event, the funds could experience delays in recovering their securities and possibly capital losses.

Fundamental Policy. The value of loaned securities may not exceed 33 1/3% of a fund's total assets.

When-Issued Securities and Forward Commitment Contracts. The funds may purchase securities on a when-issued or delayed delivery basis or may purchase or sell securities on a forward commitment basis. The price of these securities is fixed at the time of the commitment to buy, but delivery and payment can take place a month or more later. During the interim period, the market value of the securities can fluctuate, and no interest accrues to the purchaser. At the time of delivery, the value of the securities may be more or less than the purchase or sale price. Depending on the fund's other investments, purchase of these securities could increase the level of fluctuations in the fund's net asset value.

Portfolio Transactions. The funds will not generally trade in securities (either common stocks or bonds) for short-term profits, but, when circumstances warrant, securities may be purchased and sold without regard to the length of time held. The portfolio turnover rate of the Balanced, Growth and Income Funds is not expected to exceed ____%, ____% and ____%, respectively.

High Yield/High Risk Investing. The total return and yield of lower quality (high yield/high risk) bonds, commonly referred to as "junk bonds," can be expected to fluctuate more than the total return and yield of higher quality, shorter-term bonds. Junk bonds are regarded as predominantly speculative with respect to the issuer's continuing ability to meet principal and interest payments. Successful investment in low and lower-medium quality bonds involves greater investment risk and is highly dependent on T. Rowe Price's credit analysis. A real or perceived economic downturn or higher interest rates could cause a decline in high yield bond prices, because such events could lessen the ability of issuers to make principal and interest payments. These bonds are thinly-traded and can be more difficult to sell and value accurately than high-quality bonds. Because objective pricing data may be less available, judgment may play a greater role in the valuation process.

Operating Policy. The Balanced, Growth and Income Funds may each invest up to 25%, 20% and 15%, respectively, of their total assets in below investment grade or junk bonds.

Credit Quality Considerations. The credit quality of most bond issues is evaluated by rating agencies such as Moody's and Standard & Poor's. Credit quality refers to the issuer's ability to meet all required interest and principal payments. The highest ratings are assigned to issuers perceived to be the best credit risks. T. Rowe Price research analysts also evaluate all portfolio holdings of the funds, including those rated by outside agencies. The lower the rating on a bond, the higher the yield, other things being equal.

Table 4 shows the rating scale used by the major rating agencies. T. Rowe Price considers publicly available ratings, but

emphasizes its own credit analysis when selecting investments.

Ratings of Corporate Debt Securities

	Moody's Investors Service, Inc.	Standard & Poor's Corpora- tion	Fitch Investors Service, Inc.	Definition
Long-Term	Aaa	AAA	AAA	Highest quality
	Aa	AA	AA	High quality
	A	A	A	Upper medium grade
	Baa	BBB	BBB	Medium grade
	Ba	BB	BB	Low grade
	B	B	B	Specula- tive

	Moody's	S&P	Fitch
Commer- cial Paper	P-1 Superior quality	A-1+ Extremely strong quality	F-1+ Exception- ally strong quality
		A-1 Strong quality	F-1 Very strong quality
	P-2 Strong quality	A-2 Satisfac- tory quality	F-2 Good credit quality
	P-3 Acceptable	A-3 Adequate	F-3 Fair credit

quality	quality	quality
---------	---------	---------

B Specu- lative quality	F-S Weak credit quality
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Table 4

4 Investing with T. Rowe Price

Meeting Requirements for New Accounts

Tax Identification Number

Always verify your transactions by carefully reviewing the confirmation we send you. Please report any discrepancies to Shareholder Services.

We must have your correct social security or corporate tax identification number and a signed New Account Form or W-9 Form. Otherwise, federal law requires the fund to withhold a percentage (currently 31%) of your dividends, capital gain distributions, and redemptions, and may subject you to an IRS fine. You will also be prohibited from opening another account by exchange. If this information is not received within 60 days after your account is established, your account may be redeemed, priced at the NAV on the date of redemption.

Unless you request otherwise, one shareholder report will be mailed to multiple account owners with the same tax identification number and same zip code and to those shareholders who have requested that their account be combined with someone else's for financial reporting.

Opening a New Account: \$2,500 minimum initial investment; \$1,000 for retirement or gifts or transfers to minors (UGMA/UTMA) accounts

Account Registration

If you own other T. Rowe Price funds, be sure to register any new account just like your existing accounts so you can exchange among them easily. (The name and account type would have to be identical.)

Regular Mail
T. Rowe Price
Account Services
P.O. Box 17300
Baltimore, MD
21298-9353

Mailgram, Express,
Registered, or Certified
Mail
T. Rowe Price
Account Services
10090 Red Run Blvd.
Owings Mills, MD 21117

By Mail

Please make your check payable to T. Rowe Price funds (otherwise it may be returned) and send it together with the New Account Form to the address at left.

By Wire

- o Call Investor Services for an account number and use the wire address below.
- o Complete a New Account Form and mail it to one of the appropriate addresses listed at left. Note: Retirement plans cannot be opened by wire.
- o Give the following wire address to your bank: Morgan Guaranty Trust Co. of New York, ABA# 021000238, T. Rowe Price [fund name], AC-00153938. Provide fund name, account name(s), and account number.

By Exchange

Call Shareholder Services. The new account will have the same registration as the account from which you are exchanging. Services for the new account may be carried over by telephone request if preauthorized on the existing account. (See explanation of "Excessive Trading " under "Transaction Procedures.")

In Person

Drop off your New Account Form at any of the locations listed on the next page and obtain a receipt.

Drop-off locations:

101 East Lombard St. Baltimore, MD	T. Rowe Price Financial Center 10090 Red Run Boulevard Owings Mills, MD
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Farragut Square 900 17th Street, NW Washington, D.C.	ARCO Tower 31st Floor 515 S. Flower St. Los Angeles, CA
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Note: The fund and its agents have the right to waive or lower investment minimums, to accept initial purchases by telephone or mailgram, to cancel or reject any purchase or exchange if the written confirmation has not been received by the shareholder to otherwise modify the conditions of purchase or any services at any time or to act on any instructions believed to be genuine.

Purchasing Additional Shares: \$100 minimum purchase; \$50 minimum for retirement plans and Automatic Asset Builder; \$5,000 minimum for telephone purchases

By ACH Transfer
Use Tele*AccessR, PC*AccessR or call Investor Services if you have established electronic transfers using the ACH network.

By Wire
Call Shareholder Services or use the wire address in "Opening a New Account."

By Mail

- o Provide your account number and the fund name on your check.
- o Mail the check to us at the address shown at left either with a reinvestment slip or a note indicating the fund and account number in which you wish to purchase shares.

Regular Mail
T. Rowe Price Funds
Account Services
P.O. Box 89000
Baltimore, MD
21289-1500

By Automatic Asset Builder
Fill out the Automatic Asset Builder
section on the New Account or Shareholder
Services Form (\$50 minimum).

By Phone

Call Shareholder Services to lock in that
day's closing price; payment is due within
five days (\$5,000 minimum).

Exchanging and Redeeming Shares

By Phone

Call Shareholder Services. If you find our
phones busy during unusually volatile
markets, please consider placing your order
by Tele*Access or PC*Access (if you have
previously authorized telephone services),
or by express mail or mailgram. For
exchange policies, please see "Transaction
Procedures and Special Requirements -
Excessive Trading."

Redemption proceeds can be mailed to your
account address, sent by ACH transfer, or
wired to your bank. For charges, see
"Electronic Transfers - By Wire" on the
next page.

By Mail

Provide account name(s) and numbers, fund
name(s), and exchange or redemption amount.
For exchanges, mail to the appropriate

Mailgram, Express,
Registered, or
Certified Mail

(See page 20.)

address below or at left, indicate the fund you are exchanging from and the fund(s) you are exchanging into. T. Rowe Price requires the signatures of all owners exactly as registered, and possibly a signature guarantee (see "Transaction Procedures and Special Requirements--Signature Guarantees").

Regular Mail

For Non-Retirement and IRA Accounts:	For Employer-Sponsored Retirement Accounts:
T. Rowe Price Account Services	T. Rowe Price Trust Company
P.O. Box 89000	P.O. Box 89000
Baltimore, MD	Baltimore, MD
21289-0220	21289-0300

Note: Redemptions from retirement accounts, including IRAs, must be in writing. Please call Shareholder Services to obtain an IRA Distribution Request Form. For employer-sponsored retirement accounts, call Investor Services or your plan administrator for instructions.

Shareholder Services

Investor Services
1-800-638-5660
1-410-547-2308

Many services are available to you as a T. Rowe Price shareholder; some you receive automatically and others you must authorize on the New Account Form. By signing up for services on the New Account Form rather

than later on, you avoid having to complete a separate form and obtain a signature guarantee. This section reviews some of the principal services currently offered. Our Services Guide contains detailed descriptions of these and other services. If you are a new T. Rowe Price investor, you will receive a Services Guide with our Welcome Kit.

Retirement Plans

We offer a wide range of plans for individuals and institutions, including large and small businesses: IRAs, SEP-IRAs, Keoghs (profit sharing, money purchase pension), 401(k), and 403(b)(7). For information on IRAs, call Investor Services. For information on all other retirement plans, please call our Trust Company at 1-800-492-7670.

Exchange Service

You can move money from one account to an existing identically registered account, or open a new identically registered account. Remember, exchanges are purchases and sales for tax purposes. (Exchanges into a state tax-free fund are limited to investors living in states where the funds are registered.) Some of the T. Rowe Price funds may impose a redemption fee of .50%-2%, payable to such funds, on shares held for less than one year, or in some Funds, six months.

Automated Services

Telephone Services

Tele*Access. 24-hour services via toll-free number provides information such as yields, prices, dividends, account balances, and your latest transaction as well as the ability to request prospectuses and account

forms and initiate purchase, redemption and exchange orders in your accounts (see "Electronic Transfers" below).

PC*Access. 24-hour service via dial-up modem provides the same information as Tele*Access, but on a personal computer. Please call Investor Services for an information guide.

Telephone and Walk-In Services

Buy, sell, or exchange shares by calling one of our service representatives or by visiting one of our four investor center locations.

Electronic Transfers

By ACH. With no charges to pay, you can initiate a purchase or redemption for as little as \$100 or as much as \$100,000 between your bank account and fund account using the ACH network. Enter instructions via Tele*Access, PC*Access or call Shareholder Services.

By Wire. Electronic transfers can also be conducted via bank wire. There is currently a \$5 fee for wire redemptions under \$5,000, and your bank may charge for wire transfers regardless of size.

Automatic Investing (\$50 minimum)

You can invest automatically in several different ways, including:

- o Automatic Asset Builder. You instruct us to move \$50 or more once a month or less often from your bank account, or you can instruct your employer to send all or a portion of your paycheck to the fund or

funds you designate.

- o Automatic Exchange. Enables you to set up systematic investments from one fund account into another, such as from a money fund into a stock fund.

Discount Brokerage

You can trade stocks, bonds, options, precious metals and other securities at a substantial savings over regular commission rates. Call Investor Services for information.

Note: If you buy or sell T. Rowe Price Funds through anyone other than T. Rowe Price, such as broker-dealers or banks, you may be charged transaction or service fees by those institutions. No such fees are charged by T. Rowe Price Investment Services or the Fund for transactions conducted directly with the Fund.

To Open an Account
Investor Services
1-800-638-5660
1-410-547-2308

For Existing Accounts
Shareholder Services

Prospectus

Personal
Strategy Funds

T. Rowe Price

1-800-225-5132
1-410-625-6500

Personal
Strategy Funds,
Inc.
July 1, 1994

For Yields & Prices
Tele*Access (registered
trademark)
1-800-638-2587
1-410-625-7676
24 hours, 7 days

Investor Centers

101 East Lombard St.
First Floor
Baltimore, MD

Farragut Square
900 17th Street, N.W.
First Floor
Washington, D.C.

T. Rowe Price
Financial Center
First Floor
10090 Red Run Blvd.
Owings Mills, MD

ARCO Tower
31st Floor
515 S. Flower St.
Los Angeles, CA

T. Rowe Price
Invest With
Confidence
(registered
trademark)

To help you achieve

your financial goals,
T. Rowe Price offers a
wide range of stock,
bond, and money market
investments, as well
as convenient services
and timely,
informative reports.

A family of

funds diversified across stocks, bonds, and money market
securities to offer three levels of potential risk and reward.

APPENDIX A

(Three pie charts appear here as an illustration of the funds' investment programs and risk profiles.)

Personal Strategy: Income	Personal Strategy: Balanced	Personal Strategy: Growth
Benchmark mix Stocks 40% (can range 30-50%) Bonds 40% (can range 30-50%) Money markets 20% (can range 10-30%)	Benchmark mix Stocks 60% (can range 50-70%) Bonds 30% (can range 20-40%) Money markets 10% (can range 0-20%)	Benchmark mix Stocks 80% (can range 70-90%) Bonds 20% (can range 10-30%) Money markets 0% (can range 0-20%)
Potential Risk/ Reward	Potential Risk/ Reward	Potential Risk/ Reward
lowest	moderate	highest

STATEMENT OF ADDITIONAL INFORMATION

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT FUND, INC.

T. ROWE PRICE GNMA FUND

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PERSONAL STRATEGY FUNDS, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE U.S. TREASURY FUNDS, INC.

U.S. Treasury Intermediate Fund

U.S. Treasury Long-Term Fund

U.S. Treasury Money Fund

(collectively the "Funds" and individually the "Fund")

This Statement of Additional Information is not a prospectus but should be read in conjunction with the appropriate Fund's prospectus dated July 1, 1994, which may be obtained from T. Rowe Price Investment Services, Inc., 100 East Pratt Street, Baltimore, Maryland 21202.

If you would like a prospectus for a Fund of which you are not a shareholder, please call 1-800-638-5660. A prospectus with more complete information, including management fees and expenses will be sent to you. Please read it carefully.

The date of this Statement of Additional Information is July 1, 1994.

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INVESTMENT OBJECTIVES AND POLICIES

The following information supplements the discussion of each Fund's investment objectives and policies discussed in each Fund's prospectus. The Funds will not make a material change in their investment objectives without obtaining shareholder

approval. Unless otherwise specified, the investment programs and restrictions of the Funds are not fundamental policies. Each Fund's operating policies are subject to change by each Board of Directors/Trustees without shareholder approval. However, shareholders will be notified of a material change in an operating policy. Each Fund's fundamental policies may not be changed without the approval of at least a majority of the outstanding shares of the Fund or, if it is less, 67% of the shares represented at a meeting of shareholders at which the holders of 50% or more of the shares are represented.

Throughout this Statement of Additional Information, "the Fund" is intended to refer to each Fund listed on the cover page, unless otherwise indicated.

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RISK FACTORS

All Funds

Debt Obligations

Yields on short, intermediate, and long-term securities are dependent on a variety of factors, including the general conditions of the money and bond markets, the size of a particular offering, the maturity of the obligation, and the credit quality and rating of the issue. Debt securities with longer maturities tend to have higher yields and are generally subject to potentially greater capital appreciation and depreciation than obligations with shorter maturities and lower yields. The market prices of debt securities usually vary, depending upon available yields. An increase in interest rates will generally reduce the value of portfolio debt securities, and a decline in interest rates will generally increase the value of portfolio debt securities. The ability of the Fund to achieve its investment objective is also dependent on the continuing ability of the issuers of the debt securities in which the Fund invests to meet their obligations for the payment of interest and principal when due. Although the Fund seeks to reduce risk by portfolio diversification, credit analysis, and attention to trends in the economy, industries and financial markets, such efforts will not eliminate all risk. There can, of course, be no assurance that the Fund will achieve its investment objective.

After purchase by the Fund, a debt security may cease to be rated or its rating may be reduced below the minimum required for purchase by the Fund. For the Prime Reserve and U.S. Treasury Money Funds, the procedures set forth in Rule 2a-7, under the Investment Company Act of 1940, may require the prompt sale of

any such security. For the other Funds, neither event will require a sale of such security by the Fund. However, T. Rowe Price will consider such event in its determination of whether the Fund should continue to hold the security. To the extent that the ratings given by Moody's or S&P may change as a result of changes in such organizations or their rating systems, the Fund will attempt to use comparable ratings as standards for investments in accordance with the investment policies contained in the prospectus. When purchasing unrated securities, T. Rowe Price, under the supervision of the Fund's Board of Directors, determines whether the unrated security is of a qualify comparable to that which the Fund is allowed to purchase.

All Funds, (except Prime Reserve and U.S. Treasury Money Funds)

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Because of its investment policy, the Fund may or may not be suitable or appropriate for all investors. The Fund is not a money market fund and is not an appropriate investment for those whose primary objective is principal stability. The value of the portfolio securities of the Fund will fluctuate based upon market conditions. Although the Fund seeks to reduce risk by investing in a diversified portfolio, such diversification does not eliminate all risk. There can, of course, be no assurance that the Fund will achieve its investment objective.

Prime Reserve and U.S. Treasury Money Funds

There can be no assurance that the Funds will achieve their investment objectives or be able to maintain their net asset value per share at \$1.00. The price of the Fund is not guaranteed or insured by the U.S. Government and its yield is not fixed. An increase in interest rates could reduce the value of the Fund's portfolio investments, and a decline in interest rates could increase the value.

Reference is also made to the sections entitled "Types of Securities" and "Portfolio Management Practices" for discussions of the risks associated with the investments and practices described therein as they apply to the Fund.

Adjustable Rate, GNMA, New Income, Short-Term Bond, High Yield, and Personal Strategy Funds

Mortgage securities differ from conventional bonds in that principal is paid back over the life of the security rather than at maturity. As a result, the holder of a mortgage security (i.e., the Fund) receives monthly scheduled payments of principal

and interest, and may receive unscheduled principal payments representing prepayments on the underlying mortgages. The incidence of unscheduled principal prepayments is also likely to increase in mortgage pools owned by the Fund when prevailing mortgage loan rates fall below the mortgage rates of the securities underlying the individual pool. The effect of such prepayments in a falling rate environment is to (1) cause the Fund to reinvest principal payments at the then lower prevailing interest rate, and (2) reduce the potential for capital appreciation beyond the face amount of the security. Conversely, the Fund may realize a gain on prepayments of mortgage pools trading at a discount. Such prepayments will provide an early return of principal which may then be reinvested at the then higher prevailing interest rate.

The market value of adjustable rate mortgage securities ("ARMs"), like other U.S. government securities, will generally vary inversely with changes in market interest rates, declining

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when interest rates rise and rising when interest rates decline. Because of their periodic adjustment feature, ARMs should be more sensitive to short-term interest rates than long-term rates. They should also display less volatility than long-term mortgage securities. Thus, while having less risk of a decline during periods of rapidly rising rates, ARMs may also have less potential for capital appreciation than other investments of comparable maturities. Interest rate caps on mortgages underlying ARM securities may prevent income on the ARM from increasing to prevailing interest rate levels and cause the securities to decline in value. In addition, to the extent ARMs are purchased at a premium, mortgage foreclosures and unscheduled principal prepayments may result in some loss of the holders' principal investment to the extent of the premium paid. On the other hand, if ARMs are purchased at a discount, both a scheduled payment of principal and an unscheduled prepayment of principal will increase current and total returns and will accelerate the recognition of income which when distributed to shareholders will be taxable as ordinary income.

High Yield, New Income, Short-Term Bond, and Personal Strategy Funds

Risk Factors of Foreign Investing

There are special risks in foreign investing. Certain of these risks are inherent in any mutual fund investing in foreign securities while others relate more to the countries in which the Funds will invest. Many of the risks are more pronounced for investments in developing or emerging countries, such as many of the countries of Southeast Asia, Latin America, Eastern Europe

and the Middle East. Although there is no universally accepted definition, a developing country is generally considered to be a country which is in the initial stages of its industrialization cycle with a per capita gross national product of less than \$8,000.

Political and Economic Factors. Individual foreign economies of certain countries may differ favorably or unfavorably from the United States' economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position. The internal politics of certain foreign countries are not as stable as in the United States. For example, in 1991, the existing government in Thailand was overthrown in a military coup. In 1992, there were two military coup attempts in Venezuela and in 1992 the President of Brazil was impeached. In addition, significant external political risks currently affect some foreign countries. Both Taiwan and China still claim sovereignty of one another and there is a demilitarized border between North and South Korea.

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Governments in certain foreign countries continue to participate to a significant degree, through ownership interest or regulation, in their respective economies. Action by these governments could have a significant effect on market prices of securities and payment of dividends. The economies of many foreign countries are heavily dependent upon international trade and are accordingly affected by protective trade barriers and economic conditions of their trading partners. The enactment by these trading partners of protectionist trade legislation could have a significant adverse effect upon the securities markets of such countries.

Currency Fluctuations. The Funds will invest in securities denominated in various currencies. Accordingly, a change in the value of any such currency against the U.S. dollar will result in a corresponding change in the U.S. dollar value of the Funds' assets denominated in that currency. Such changes will also affect the Funds' income. Generally, when a given currency appreciates against the dollar (the dollar weakens) the value of the Fund's securities denominated in that currency will rise. When a given currency depreciates against the dollar (the dollar strengthens) the value of the Funds' securities denominated in that currency would be expected to decline.

Investment and Repatriation of Restrictions. Foreign investment in the securities markets of certain foreign countries is restricted or controlled in varying degrees. These

restrictions may limit at times and preclude investment in certain of such countries and may increase the cost and expenses of the Funds. Investments by foreign investors are subject to a variety of restrictions in many developing countries. These restrictions may take the form of prior governmental approval, limits on the amount or type of securities held by foreigners, and limits on the types of companies in which foreigners may invest. Additional or different restrictions may be imposed at any time by these or other countries in which the Funds invest. In addition, the repatriation of both investment income and capital from several foreign countries is restricted and controlled under certain regulations, including in some cases the need for certain government consents. For example, capital invested in Chile normally cannot be repatriated for one year.

Market Characteristics. Foreign stock and bond markets are generally not as developed or efficient as, and may be more volatile than, those in the United States. While growing in volume, they usually have substantially less volume than U.S. markets and the Funds' portfolio securities may be less liquid and subject to more rapid and erratic price movements than securities of comparable U.S. companies. Equity securities may trade at price/earnings multiples higher than comparable United States securities and such levels may not be sustainable. Fixed

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commissions on foreign stock exchanges are generally higher than negotiated commissions on United States exchanges, although the Funds will endeavor to achieve the most favorable net results on their portfolio transactions. There is generally less government supervision and regulation of foreign stock exchanges, brokers and listed companies than in the United States. Moreover, settlement practices for transactions in foreign markets may differ from those in United States markets. Such differences may include delays beyond periods customary in the United States and practices, such as delivery of securities prior to receipt of payment, which increase the likelihood of a "failed settlement." Failed settlements can result in losses to a Fund.

Investment Funds. The Funds may invest in investment funds which have been authorized by the governments of certain countries specifically to permit foreign investment in securities of companies listed and traded on the stock exchanges in these respective countries. The Funds' investment in these funds is subject to the provisions of the 1940 Act. If the Funds invest in such investment funds, the Funds' shareholders will bear not only their proportionate share of the expenses of the Funds (including operating expenses and the fees of the investment manager), but also will bear indirectly similar expenses of the underlying investment funds. In addition, the securities of these investment funds may trade at a premium over their net

asset value.

Information and Supervision. There is generally less publicly available information about foreign companies comparable to reports and ratings that are published about companies in the United States. Foreign companies are also generally not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to United States companies. It also may be more difficult to keep currently informed of corporate actions which affect the prices of portfolio securities.

Taxes. The dividends and interest payable on certain of the Funds' foreign portfolio securities may be subject to foreign withholding taxes, thus reducing the net amount of income available for distribution to the Funds' shareholders. A shareholder otherwise subject to United States federal income taxes may, subject to certain limitations, be entitled to claim a credit or deduction for U.S. federal income tax purposes for his or her proportionate share of such foreign taxes paid by the Funds. (See "Tax Status," page __.)

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Other. With respect to certain foreign countries, especially developing and emerging ones, there is the possibility of adverse changes in investment or exchange control regulations, expropriation or confiscatory taxation, limitations on the removal of funds or other assets of the Funds, political or social instability, or diplomatic developments which could affect investments by U.S. persons in those countries.

Eastern Europe and Russia. Changes occurring in Eastern Europe and Russia today could have long-term potential consequences. As restrictions fall, this could result in rising standards of living, lower manufacturing costs, growing consumer spending, and substantial economic growth. However, investment in the countries of Eastern Europe and Russia is highly speculative at this time. Political and economic reforms are too recent to establish a definite trend away from centrally-planned economies and state owned industries. In many of the countries of Eastern Europe and Russia, there is no stock exchange or formal market for securities. Such countries may also have government exchange controls, currencies with no recognizable market value relative to the established currencies of western market economies, little or no experience in trading in securities, no financial reporting standards, a lack of a banking and securities infrastructure to handle such trading, and a legal tradition which does not recognize rights in private property. In addition, these countries may have national policies which restrict investments in companies deemed sensitive to the country's national interest. Further, the governments in such

countries may require governmental or quasi-governmental authorities to act as custodian of a Fund's assets invested in such countries and these authorities may not qualify as a foreign custodian under the Investment Company Act of 1940 and exemptive relief from such Act may be required. All of these considerations are among the factors which could cause significant risks and uncertainties to investment in Eastern Europe and Russia. Each Fund will only invest in a company located in, or a government of, Eastern Europe and Russia, if it believes the potential return justifies the risk. To the extent any securities issued by companies in Eastern Europe and Russia are considered illiquid, each Fund will be required to include such securities within its 15% restriction on investing in illiquid securities. [/R]

High Yield and Personal Strategy Funds

Special Risks of Investing in Junk Bonds

The following special considerations are additional risk factors associated with the Fund's investments in lower rated debt securities.

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Youth and Growth of the Lower Rated Debt Securities Market. The market for lower rated debt securities is relatively new and its growth has paralleled a long economic expansion. Past experience may not, therefore, provide an accurate indication of future performance of this market, particularly during periods of economic recession. An economic downturn or increase in interest rates is likely to have a greater negative effect on this market, the value of lower rated debt securities in the Fund's portfolio, the Fund's net asset value and the ability of the bonds' issuers to repay principal and interest, meet projected business goals and obtain additional financing than on higher rated securities. These circumstances also may result in a higher incidence of defaults than with respect to higher rated securities. An investment in this Fund is more speculative than investment in shares of a fund which invests only in higher rated debt securities.

Sensitivity to Interest Rate and Economic Changes. Prices of lower rated debt securities may be more sensitive to adverse economic changes or corporate developments than higher rated investments. Debt securities with longer maturities, which may have higher yields, may increase or decrease in value more than debt securities with shorter maturities. Market prices of lower rated debt securities structured as zero coupon or pay-in-kind securities are affected to a greater extent by interest rate changes and may be more volatile than securities which pay

interest periodically and in cash. Where it deems it appropriate and in the best interests of Fund shareholders, the Fund may incur additional expenses to seek recovery on a debt security on which the issuer has defaulted and to pursue litigation to protect the interests of security holders of its portfolio companies.

Liquidity and Valuation. Because the market for lower rated securities may be thinner and less active than for higher rated securities, there may be market price volatility for these securities and limited liquidity in the resale market. Nonrated securities are usually not as attractive to as many buyers as rated securities are, a factor which may make nonrated securities less marketable. These factors may have the effect of limiting the availability of the securities for purchase by the Fund and may also limit the ability of the Fund to sell such securities at their fair value either to meet redemption requests or in response to changes in the economy or the financial markets. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of lower rated debt securities, especially in a thinly traded market. To the extent the Fund owns or may acquire illiquid or restricted lower rated securities, these securities may involve special registration responsibilities, liabilities and costs, and liquidity and valuation difficulties. Changes in values of debt

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securities which the Fund owns will affect its net asset value per share. If market quotations are not readily available for the Fund's lower rated or nonrated securities, these securities will be valued by a method that the Fund's Board of Directors believes accurately reflects fair value. Judgment plays a greater role in valuing lower rated debt securities than with respect to securities for which more external sources of quotations and last sale information are available.

Congressional Action. New and proposed laws may have an impact on the market for lower rated debt securities. For example, as a result of the Financial Institution's Reform, Recovery, and Enforcement Act of 1989, savings and loan associations were required to dispose of their high yield bonds no later than July 1, 1994. Qualified affiliates of savings and loan associations, however, may purchase and retain these securities, and savings and loan associations may divest these securities by sale to their qualified affiliates. T. Rowe Price is unable at this time to predict what effect, if any, the legislation may have on the market for lower rated debt securities.

Taxation. Special tax considerations are associated with investing in lower rated debt securities structured as zero

coupon or pay-in-kind securities. The Fund accrues income on these securities prior to the receipt of cash payments. The Fund must distribute substantially all of its income to its shareholders to qualify for pass-through treatment under the tax laws and may, therefore, have to dispose of its portfolio securities to satisfy distribution requirements.

INVESTMENT PROGRAM

Types of Securities

Set forth below is additional information about certain of the investments described in the Fund's prospectus.

Debt Securities

Fixed income securities in which the Fund may invest include, but are not limited to, those described below.

All Funds

U.S. Government Obligations. Bills, notes, bonds and other debt securities issued by the U.S. Treasury. These are direct obligations of the U.S. Government and differ mainly in the length of their maturities.

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U.S. Government Agency Securities. Issued or guaranteed by U.S. Government sponsored enterprises and federal agencies. These include securities issued by the Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Bank, Federal Land Banks, Farmers Home Administration, Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Financing Bank, Farm Credit Banks, the Small Business Association, and the Tennessee Valley Authority. Some of these securities are supported by the full faith and credit of the U.S. Treasury; and the remainder are supported only by the credit of the instrumentality, which may or may not include the right of the issuer to borrow from the Treasury.

The GNMA, U.S. Treasury Money, Intermediate, and Long-Term Funds may only invest in these securities if they are supported by the full faith and credit of the U.S. government.

All Funds, except GNMA, U.S. Treasury Money, Intermediate and Long-Term Funds

Bank Obligations. Certificates of deposit, bankers' acceptances, and other short-term debt obligations. Certificates

of deposit are short-term obligations of commercial banks. A bankers' acceptance is a time draft drawn on a commercial bank by a borrower, usually in connection with international commercial transactions. Certificates of deposit may have fixed or variable rates. The Fund may invest in U.S. banks, foreign branches of U.S. banks, U.S. branches of foreign banks, and foreign branches of foreign banks.

Corporate Debt Securities. Outstanding nonconvertible corporate debt securities (e.g., bonds and debentures). Corporate notes may have fixed, variable, or floating rates.

Commercial Paper. Short-term promissory notes issued by corporations primarily to finance short-term credit needs. Certain notes may have floating or variable rates.

Foreign Government Securities. Issued or guaranteed by a foreign government, province, instrumentality, political subdivision or similar unit thereof.

Savings and Loan Obligations. Negotiable certificates of deposit and other short-term debt obligations of savings and loan associations.

Supranational Agencies. Securities of certain supranational entities, such as the International Development Bank.

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All Funds, (except Prime Reserve and U.S. Treasury Money Funds)

Mortgage-Related Securities

Mortgage-related securities in which the Fund may invest include, but are not limited to, those described below. The GNMA, U.S. Treasury Intermediate and U.S. Treasury Long-Term Funds may only invest in these securities to the extent they are backed by the full faith and credit of the U.S. Government.

Mortgage-Backed Securities. Mortgage-backed securities are securities representing an interest in a pool of mortgages. The mortgages may be of a variety of types, including adjustable rate, conventional 30-year fixed rate, graduated payment, and 15-year. Principal and interest payments made on the mortgages in the underlying mortgage pool are passed through to the Fund. This is in contrast to traditional bonds where principal is normally paid back at maturity in a lump sum. Unscheduled prepayments of principal shorten the securities' weighted average life and may lower their total return. (When a mortgage in the underlying mortgage pool is prepaid, an unscheduled principal prepayment is passed through to the Fund. This principal is returned to the Fund at par. As a result, if a mortgage security were trading at

a premium, its total return would be lowered by prepayments, and if a mortgage security were trading at a discount, its total return would be increased by prepayments.) The value of these securities also may change because of changes in the market's perception of the creditworthiness of the federal agency that issued them. In addition, the mortgage securities market in general may be adversely affected by changes in governmental regulation or tax policies.

U.S. Government Agency Mortgage-Backed Securities. These are obligations issued or guaranteed by the United States Government or one of its agencies or instrumentalities, such as the Government National Mortgage Association ("Ginnie Mae" or "GNMA"), the Federal National Mortgage Association ("Fannie Mae" or "FNMA") and the Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC"). FNMA and FHLMC obligations are not backed by the full faith and credit of the U.S. Government as GNMA certificates are, but FNMA and FHLMC securities are supported by the instrumentality's right to borrow from the United States Treasury. U.S. Government Agency Mortgage-Backed

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Certificates provide for the pass-through to investors of their pro-rata share of monthly payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans, net of any fees paid to the guarantor of such securities and the servicer of the underlying mortgage loans. Each of GNMA, FNMA and FHLMC guarantees timely distributions of interest to certificate holders. GNMA and FNMA guarantee timely distributions of scheduled principal. FHLMC has in the past guaranteed only the ultimate collection of principal of the underlying mortgage loan; however, FHLMC now issues Mortgage-Backed Securities (FHLMC Gold PCs) which also guarantee timely payment of monthly principal reductions.

Ginnie Mae Certificates. Ginnie Mae is a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development. The National Housing Act of 1934, as amended (the "Housing Act"), authorizes Ginnie Mae to guarantee the timely payment of the principal of and interest on certificates that are based on and backed by a pool of mortgage loans insured by the Federal Housing Administration under the Housing Act, or Title V of the Housing Act of 1949 ("FHA Loans"), or guaranteed by the Department of Veterans Affairs under the Servicemen's Readjustment Act of 1944, as amended ("VA Loans"), or by pools of other eligible mortgage loans. The Housing Act provides that the full faith and credit of the United States government is pledged to the payment of all amounts that may be required to be paid under any guaranty. In order to meet its obligations under such guaranty, Ginnie Mae is authorized to borrow from the United States Treasury with no

limitations as to amount.

Fannie Mae Certificates. Fannie Mae is a federally chartered and privately owned corporation organized and existing under the Federal National Mortgage Association Charter Act of 1938. FNMA Certificates represent a pro-rata interest in a group of mortgage loans purchased by Fannie Mae. FNMA guarantees the timely payment of principal and interest on the securities it issues. The obligations of FNMA are not backed by the full faith and credit of the U.S. Government.

Freddie Mac Certificates. Freddie Mac is a corporate instrumentality of the United States created pursuant to the Emergency Home Finance Act of 1970, as amended (the "FHLMC Act"). Freddie Mac Certificates represent a pro-rata interest in a group of mortgage loans (a "Freddie Mac Certificate group") purchased by Freddie Mac. Freddie Mac guarantees timely payment of interest and principal on certain securities it issues and timely payment of interest and eventual payment of principal on other securities it issues. The obligations of Freddie Mac are obligations solely of Freddie Mac and are not backed by the full faith and credit of the U.S. Government.

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When mortgages in the pool underlying a Mortgage-Backed Security are prepaid by mortgagors or by result of foreclosure, such principal payments are passed through to the certificate holders. Accordingly, the life of the Mortgage-Backed Security is likely to be substantially shorter than the stated maturity of the mortgages in the underlying pool. Because of such variation in prepayment rates, it is not possible to predict the life of a particular Mortgage-Backed Security, but FHA statistics indicate that 25- to 30-year single family dwelling mortgages have an average life of approximately 12 years. The majority of Ginnie Mae Certificates are backed by mortgages of this type, and, accordingly, the generally accepted practice treats Ginnie Mae Certificates as 30-year securities which prepay full in the 12th year. FNMA and Freddie Mac Certificates may have differing prepayment characteristics.

Fixed Rate Mortgage-Backed Securities bear a stated "coupon rate" which represents the effective mortgage rate at the time of issuance, less certain fees to GNMA, FNMA and FHLMC for providing the guarantee, and the issuer for assembling the pool and for passing through monthly payments of interest and principal.

Payments to holders of Mortgage-Backed Securities consist of the monthly distributions of interest and principal less the applicable fees. The actual yield to be earned by a holder of Mortgage-Backed Securities is calculated by dividing interest payments by the purchase price paid for the Mortgage-Backed

Securities (which may be at a premium or a discount from the face value of the certificate).

Monthly distributions of interest, as contrasted to semi-annual distributions which are common for other fixed interest investments, have the effect of compounding and thereby raising the effective annual yield earned on Mortgage-Backed Securities. Because of the variation in the life of the pools of mortgages which back various Mortgage-Backed Securities, and because it is impossible to anticipate the rate of interest at which future principal payments may be reinvested, the actual yield earned from a portfolio of Mortgage-Backed Securities will differ significantly from the yield estimated by using an assumption of a certain life for each Mortgage-Backed Security included in such a portfolio as described above.

U.S. Government Agency Multiclass Pass-Through Securities. Unlike CMOs, U.S. Government Agency Multiclass Pass-Through Securities, which include FNMA Guaranteed REMIC Pass-Through Certificates and FHLMC Multi-Class Mortgage Participation Certificates, are ownership interests in a pool of Mortgage Assets. Unless the context indicates otherwise, all references herein to CMOs include multiclass pass-through securities.

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Multi-Class Residential Mortgage Securities. Such securities represent interests in pools of mortgage loans to residential home buyers made by commercial banks, savings and loan associations or other financial institutions. Unlike GNMA, FNMA and FHLMC securities, the payment of principal and interest on Multi-Class Residential Mortgage Securities is not guaranteed by the U.S. Government or any of its agencies. Accordingly, yields on Multi-Class Residential Mortgage Securities have been historically higher than the yields on U.S. government mortgage securities. However, the risk of loss due to default on such instruments is higher since they are not guaranteed by the U.S. Government or its agencies. Additionally, pools of such securities may be divided into senior or subordinated segments. Although subordinated mortgage securities may have a higher yield than senior mortgage securities, the risk of loss of principal is greater because losses on the underlying mortgage loans must be borne by persons holding subordinated securities before those holding senior mortgage securities.

Privately-Issued Mortgage-Backed Certificates. These are pass-through certificates issued by non-governmental issuers. Pools of conventional residential mortgage loans created by such issuers generally offer a higher rate of interest than government and government-related pools because there are no direct or indirect government guarantees of payment. Timely payment of interest and principal of these pools is, however, generally

supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance. The insurance and guarantees are issued by government entities, private insurance or the mortgage poolers. Such insurance and guarantees and the creditworthiness of the issuers thereof will be considered in determining whether a mortgage-related security meets the Fund's quality standards. The Fund may buy mortgage-related securities without insurance or guarantees if through an examination of the loan experience and practices of the poolers, the investment manager determines that the securities meet the Fund's quality standards.

Collateralized Mortgage Obligations (CMOs). CMOs are bonds that are collateralized by whole loan mortgages or mortgage pass-through securities. The bonds issued in a CMO deal are divided into groups, and each group of bonds is referred to as a "tranche." Under the traditional CMO structure, the cash flows generated by the mortgages or mortgage pass-through securities in the collateral pool are used to first pay interest and then pay principal to the CMO bondholders. The bonds issued under a CMO structure are retired sequentially as opposed to the pro rata return of principal found in traditional pass-through obligations. Subject to the various provisions of individual CMO issues, the cash flow generated by the underlying collateral (to the extent it exceeds the amount required to pay the stated

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interest) is used to retire the bonds. Under the CMO structure, the repayment of principal among the different tranches is prioritized in accordance with the terms of the particular CMO issuance. The "fastest-pay" tranche of bonds, as specified in the prospectus for the issuance, would initially receive all principal payments. When that tranche of bonds is retired, the next tranche, or tranches, in the sequence, as specified in the prospectus, receive all of the principal payments until they are retired. The sequential retirement of bond groups continues until the last tranche, or group of bonds, is retired. Accordingly, the CMO structure allows the issuer to use cash flows of long maturity, monthly-pay collateral to formulate securities with short, intermediate and long final maturities and expected average lives.

In recent years, new types of CMO structures have evolved. These include floating rate CMOs, planned amortization classes, accrual bonds and CMO residuals. These newer structures affect the amount and timing of principal and interest received by each tranche from the underlying collateral. Under certain of these new structures, given classes of CMOs have priority over others with respect to the receipt of prepayments on the mortgages. Therefore, depending on the type of CMOs in which the Fund invests, the investment may be subject to a greater or lesser

risk of prepayment than other types of mortgage-related securities.

The primary risk of any mortgage security is the uncertainty of the timing of cash flows. For CMOs, the primary risk results from the rate of prepayments on the underlying mortgages serving as collateral. An increase or decrease in prepayment rates (resulting from a decrease or increase in mortgage interest rates) will affect the yield, average life and price of CMOs. The prices of certain CMOs, depending on their structure and the rate of prepayments, can be volatile. Some CMOs may also not be as liquid as other securities.

Stripped Agency Mortgage-Backed Securities. Stripped Agency Mortgage-Backed securities represent interests in a pool of mortgages, the cash flow of which has been separated into its interest and principal components. "IOs" (interest only securities) receive the interest portion of the cash flow while "POs" (principal only securities) receive the principal portion. Stripped Agency Mortgage-Backed Securities may be issued by U.S. Government Agencies or by private issuers similar to those described below with respect to CMOs and privately-issued mortgage-backed certificates. As interest rates rise and fall, the value of IOs tends to move in the same direction as interest rates. The value of the other mortgage-backed securities described herein, like other debt instruments, will tend to move in the opposite direction compared to interest rates. Under the

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Internal Revenue Code of 1986, as amended (the "Code"), POs may generate taxable income from the current accrual of original issue discount, without a corresponding distribution of cash to the Fund.

The cash flows and yields on IO and PO classes are extremely sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets. For example, a rapid or slow rate of principal payments may have a material adverse effect on the prices of IOs or POs, respectively. If the underlying mortgage assets experience greater than anticipated prepayments of principal, an investor may fail to recoup fully its initial investment in an IO class of a stripped mortgage-backed security, even if the IO class is rated AAA or Aaa or is derived from a full faith and credit obligation. Conversely, if the underlying mortgage assets experience slower than anticipated prepayments of principal, the price on a PO class will be affected more severely than would be the case with a traditional mortgage-backed security.

The staff of the Securities and Exchange Commission has advised the Fund that it believes the Fund should treat IOs and

POs, other than government-issued IOs or POs backed by fixed rate mortgages, as illiquid securities and, accordingly, limit its investments in such securities, together with all other illiquid securities, to 15% of the Fund's net assets. Under the Staff's position, the determination of whether a particular government-issued IO and PO backed by fixed rate mortgages may be made on a case by case basis under guidelines and standards established by the Fund's Board of Directors/Trustees. The Fund's Board of Directors/Trustees has delegated to T. Rowe Price the authority to determine the liquidity of these investments based on the following guidelines: the type of issuer; type of collateral, including age and prepayment characteristics; rate of interest on coupon relative to current market rates and the effect of the rate on the potential for prepayments; complexity of the issue's structure, including the number of tranches; size of the issue and the number of dealers who make a market in the IO or PO. The Fund will treat non-government-issued IOs and POs not backed by fixed or adjustable rate mortgages as illiquid unless and until the Securities and Exchange Commission modifies its position.

Adjustable Rate Mortgages. Adjustable rate mortgage (ARM) securities are collateralized by adjustable rate, rather than fixed rate, mortgages.

ARMs, like fixed rate mortgages, have a specified maturity date, and the principal amount of the mortgage is repaid over the life of the mortgage. Unlike fixed rate mortgages, the interest rate on ARMs is adjusted at regular intervals based on a

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specified, published interest rate "index" such as a Treasury rate index. The new rate is determined by adding a specific interest amount, the "margin," to the interest rate of the index. Investment in ARM securities allows the Fund to participate in changing interest rate levels through regular adjustments in the coupons of the underlying mortgages, resulting in more variable current income and lower price volatility than longer term fixed rate mortgage securities. The ARM securities in which the Fund expects to invest will generally adjust their interest rates at regular intervals of one year or less. ARM securities are a less effective means of locking in long-term rates than fixed rate mortgages since the income from adjustable rate mortgages will increase during periods of rising interest rates and decline during periods of falling rates.

Characteristics of Adjustable Rate Mortgage Securities - Interest Rate Indices. The interest rates paid on adjustable rate securities are readjusted periodically to an increment over some predetermined interest rate index. Such readjustments occur at intervals ranging from one to 60 months. There are three main

categories of indexes: (1) those based on U.S. Treasury securities (2) those derived from a calculated measure such as a cost of funds index ("COFI") or a moving average of mortgage rates and (3) those based on actively traded or prominently posted short-term, interest rates. Commonly utilized indexes include the one-year, three-year and five-year constant maturity Treasury rates, the three-month Treasury bill rate, the 180-day Treasury bill rate, rates on longer-term Treasury securities, the 11th District Federal Home Loan Bank Cost of Funds, the National Median Cost of Funds, the one-month, three-month, six-month or one-year London Interbank Offered Rate (LIBOR), the prime rate of a specific bank, or commercial paper rates. Some indexes, such as the one-year constant maturity Treasury rate, closely mirror changes in market interest rate levels. Others, such as the 11th District Home Loan Bank Cost of Funds index, tend to lag behind changes in market rate levels. The market value of the Fund's assets and of the net asset value of the Fund's shares will be affected by the length of the adjustment period, the degree of volatility in the applicable indexes and the maximum increase or decrease of the interest rate adjustment on any one adjustment date, in any one year and over the life of the securities. These maximum increases and decreases are typically referred to as "caps" and "floors", respectively.

A number of factors affect the performance of the Cost of Funds Index and may cause the Cost of Funds Index to move in a manner different from indices based upon specific interest rates, such as the One Year Treasury Index. Additionally, there can be no assurance that the Cost of Funds Index will necessarily move in the same direction or at the same rate as prevailing interest rates. Furthermore, any movement in the Cost of Funds Index as

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compared to other indices based upon specific interest rates may be affected by changes instituted by the FHLB of San Francisco in the method used to calculate the Cost of Funds Index. To the extent that the Cost of Funds Index may reflect interest changes on a more delayed basis than other indices, in a period of rising interest rates, any increase may produce a higher yield later than would be produced by such other indices, and in a period of declining interest rates, the Cost of Funds Index may remain higher than other market interest rates which may result in a higher level of principal prepayments on mortgage loans which adjust in accordance with the Cost of Funds Index than mortgage loans which adjust in accordance with other indices.

LIBOR, the London interbank offered rate, is the interest rate that the most creditworthy international banks dealing in U.S. dollar-denominated deposits and loans charge each other for large dollar-denominated loans. LIBOR is also usually the base rate for large dollar-denominated loans in the international

market. LIBOR is generally quoted for loans having rate adjustments at one, three, six or 12 month intervals.

Caps and Floors. ARMs will frequently have caps and floors which limit the maximum amount by which the interest rate to the residential borrower may move up or down, respectively, each adjustment period and over the life of the loan. Interest rate caps on ARM securities may cause them to decrease in value in an increasing interest rate environment. Such caps may also prevent their income from increasing to levels commensurate with prevailing interest rates. Conversely, interest rate floors on ARM securities may cause their income to remain higher than prevailing interest rate levels and result in an increase in the value of such securities. However, this increase may be tempered by the acceleration of prepayments.

Mortgage securities generally have a maximum maturity of up to 30 years. However, due to the adjustable rate feature of ARM securities, their prices are considered to have volatility characteristics which approximate the average period of time until the next adjustment of the interest rate. As a result, the principal volatility of ARM securities may be more comparable to short- and intermediate-term securities than to longer term fixed rate mortgage securities. Prepayments however, will increase their principal volatility. See also the discussion of Mortgage-Backed Securities on page ___.

Other Mortgage Related Securities. The Fund expects that governmental, government-related or private entities may create mortgage loan pools offering pass-through investments in addition to those described above. The mortgages underlying these securities may be alternative mortgage instruments, that is, mortgage instruments whose principal or interest payments may

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vary or whose terms to maturity may differ from customary long-term fixed rate mortgages. As new types of mortgage-related securities are developed and offered to investors, the investment manager will, consistent with the Fund's objective, policies and quality standards, consider making investments in such new types of securities.

All Funds (except GNMA, U.S. Treasury Money, Intermediate and Long-Term Funds)

Asset-Backed Securities

The credit quality of most asset-backed securities depends primarily on the credit quality of the assets underlying such securities, how well the entity issuing the security is insulated from the credit risk of the originator or any other affiliated

entities and the amount and quality of any credit support provided to the securities. The rate of principal payment on asset-backed securities generally depends on the rate of principal payments received on the underlying assets which in turn may be affected by a variety of economic and other factors. As a result, the yield on any asset-backed security is difficult to predict with precision and actual yield to maturity may be more or less than the anticipated yield to maturity. Asset-backed securities may be classified as pass-through certificates or collateralized obligations.

Pass-through certificates are asset-backed securities which represent an undivided fractional ownership interest in an underlying pool of assets. Pass-through certificates usually provide for payments of principal and interest received to be passed through to their holders, usually after deduction for certain costs and expenses incurred in administering the pool. Because pass-through certificates represent an ownership interest in the underlying assets, the holders thereof bear directly the risk of any defaults by the obligors on the underlying assets not covered by any credit support. See "Types of Credit Support".

Asset-backed securities issued in the form of debt instruments, also known as collateralized obligations, are generally issued as the debt of a special purpose entity organized solely for the purpose of owning such assets and issuing such debt. Such assets are most often trade, credit card or automobile receivables. The assets collateralizing such asset-backed securities are pledged to a trustee or custodian for the benefit of the holders thereof. Such issuers generally hold no assets other than those underlying the asset-backed securities and any credit support provided. As a result, although payments on such asset-backed securities are obligations of the issuers, in the event of defaults on the underlying assets not covered by

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any credit support (see "Types of Credit Support"), the issuing entities are unlikely to have sufficient assets to satisfy their obligations on the related asset-backed securities.

Methods of Allocating Cash Flows. While many asset-backed securities are issued with only one class of security, many asset-backed securities are issued in more than one class, each with different payment terms. Multiple class asset-backed securities are issued for two main reasons. First, multiple classes may be used as a method of providing credit support. This is accomplished typically through creation of one or more classes whose right to payments on the asset-backed security is made subordinate to the right to such payments of the remaining class or classes. See "Types of Credit Support". Second, multiple classes may permit the issuance of securities with

payment terms, interest rates or other characteristics differing both from those of each other and from those of the underlying assets. Examples include so-called "strips" (asset-backed securities entitling the holder to disproportionate interests with respect to the allocation of interest and principal of the assets backing the security), and securities with class or classes having characteristics which mimic the characteristics of non-asset-backed securities, such as floating interest rates (i.e., interest rates which adjust as a specified benchmark changes) or scheduled amortization of principal.

Asset-backed securities in which the payment streams on the underlying assets are allocated in a manner different than those described above may be issued in the future. The Fund may invest in such asset-backed securities if such investment is otherwise consistent with its investment objectives and policies and with the investment restrictions of the Fund.

Types of Credit Support. Asset-backed securities are often backed by a pool of assets representing the obligations of a number of different parties. To lessen the effect of failures by obligors on underlying assets to make payments, such securities may contain elements of credit support. Such credit support falls into two classes: liquidity protection and protection against ultimate default by an obligor on the underlying assets. Liquidity protection refers to the provision of advances, generally by the entity administering the pool of assets, to ensure that scheduled payments on the underlying pool are made in a timely fashion. Protection against ultimate default ensures ultimate payment of the obligations on at least a portion of the assets in the pool. Such protection may be provided through guarantees, insurance policies or letters of credit obtained from third parties, through various means of structuring the transaction or through a combination of such approaches. Examples of asset-backed securities with credit support arising out of the structure of the transaction include "senior-

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subordinated securities" (multiple class asset-backed securities with certain classes subordinate to other classes as to the payment of principal thereon, with the result that defaults on the underlying assets are borne first by the holders of the subordinated class) and asset-backed securities that have "reserve funds" (where cash or investments, sometimes funded from a portion of the initial payments on the underlying assets, are held in reserve against future losses) or that have been "over collateralized" (where the scheduled payments on, or the principal amount of, the underlying assets substantially exceeds that required to make payment of the asset-backed securities and pay any servicing or other fees). The degree of credit support provided on each issue is based generally on historical

information respecting the level of credit risk associated with such payments. Delinquency or loss in excess of that anticipated could adversely affect the return on an investment in an asset-backed security.

Automobile Receivable Securities. The Fund may invest in Asset Backed Securities which are backed by receivables from motor vehicle installment sales contracts or installment loans secured by motor vehicles ("Automobile Receivable Securities"). Since installment sales contracts for motor vehicles or installment loans related thereto ("Automobile Contracts") typically have shorter durations and lower incidences of prepayment, Automobile Receivable Securities generally will exhibit a shorter average life and are less susceptible to prepayment risk.

Most entities that issue Automobile Receivable Securities create an enforceable interest in their respective Automobile Contracts only by filing a financing statement and by having the servicer of the Automobile Contracts, which is usually the originator of the Automobile Contracts, take custody thereof. In such circumstances, if the servicer of the Automobile Contracts were to sell the same Automobile Contracts to another party, in violation of its obligation not to do so, there is a risk that such party could acquire an interest in the Automobile Contracts superior to that of the holders of Automobile Receivable Securities. Also although most Automobile Contracts grant a security interest in the motor vehicle being financed, in most states the security interest in a motor vehicle must be noted on the certificate of title to create an enforceable security interest against competing claims of other parties. Due to the large number of vehicles involved, however, the certificate of title to each vehicle financed, pursuant to the Automobile Contracts underlying the Automobile Receivable Security, usually is not amended to reflect the assignment of the seller's security interest for the benefit of the holders of the Automobile Receivable Securities. Therefore, there is the possibility that recoveries on repossessed collateral may not, in some cases, be

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available to support payments on the securities. In addition, various state and federal securities laws give the motor vehicle owner the right to assert against the holder of the owner's Automobile Contract certain defenses such owner would have against the seller of the motor vehicle. The assertion of such defenses could reduce payments on the Automobile Receivable Securities.

Credit Card Receivable Securities. The Fund may invest in Asset Backed Securities backed by receivables from revolving credit card agreements ("Credit Card Receivable Securities").

Credit balances on revolving credit card agreements ("Accounts") are generally paid down more rapidly than are Automobile Contracts. Most of the Credit Card Receivable Securities issued publicly to date have been Pass-Through Certificates. In order to lengthen the maturity of Credit Card Receivable Securities, most such securities provide for a fixed period during which only interest payments on the underlying Accounts are passed through to the security holder and principal payments received on such Accounts are used to fund the transfer to the pool of assets supporting the related Credit Card Receivable Securities of additional credit card charges made on an Account. The initial fixed period usually may be shortened upon the occurrence of specified events which signal a potential deterioration in the quality of the assets backing the security, such as the imposition of a cap on interest rates. The ability of the issuer to extend the life of an issue of Credit Card Receivable Securities thus depends upon the continued generation of additional principal amounts in the underlying accounts during the initial period and the non-occurrence of specified events. An acceleration in cardholders' payment rates or any other event which shortens the period during which additional credit card charges on an Account may be transferred to the pool of assets supporting the related Credit Card Receivable Security could shorten the weighted average life and yield of the Credit Card Receivable Security.

Credit cardholders are entitled to the protection of a number of state and federal consumer credit laws, many of which give such holder the right to set off certain amounts against balances owed on the credit card, thereby reducing amounts paid on Accounts. In addition, unlike most other Asset Backed Securities, Accounts are unsecured obligations of the cardholder.

Other Assets. T. Rowe Price anticipates that Asset Backed Securities backed by assets other than those described above will be issued in the future. The Fund may invest in such securities in the future if such investment is otherwise consistent with its investment objective and policies.

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There are, of course, other types of securities that are, or may become available, which are similar to the foregoing and the Fund reserves the right to invest in these securities.

High Yield Fund

Collateralized Bond or Loan Obligations

CBOs are bonds collateralized by corporate bonds and CLOs are bonds collateralized by bank loans. CBOs and CLOs are

structured into tranches, and payments are allocated such that each tranche has a predictable cash flow stream and average life. CBOs are fairly recent entrants to the fixed income market. Most issues to date have been collateralized by high yield bonds or loans, with heavy credit enhancement.

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Loan Participations and Assignments

Loan participations and assignments (collectively "participations") will typically be participating interests in loans made by a syndicate of banks, represented by an agent bank which has negotiated and structured the loan, to corporate borrowers to finance internal growth, mergers, acquisitions, stock repurchases, leveraged buy-outs and other corporate activities. Such loans may also have been made to governmental borrowers, especially governments of developing countries (LOC debt). LOC debt will involve the risk that the governmental entity responsible for the repayment of the debt may be unable or unwilling to do so when due. The loans underlying such participations may be secured or unsecured, and the Fund may invest in loans collateralized by mortgages on real property or which have no collateral. The loan participations themselves may extend for the entire term of the loan or may extend only for short "strips" that correspond to a quarterly or monthly floating rate interest period on the underlying loan. Thus, a term or revolving credit that extends for several years may be subdivided into shorter periods.

The loan participations in which the Fund will invest will also vary in legal structure. Occasionally, lenders assign to another institution both the lender's rights and obligations under a credit agreement. Since this type of assignment relieves the original lender of its obligations, it is called a novation. More typically, a lender assigns only its right to receive payments of principal and interest under a promissory note, credit agreement or similar document. A true assignment shifts to the assignee the direct debtor-creditor relationship with the underlying borrower. Alternatively, a lender may assign only part of its rights to receive payments pursuant to the underlying instrument or loan agreement. Such partial assignments, which are more accurately characterized as "participating interests," do not shift the debtor-creditor relationship to the assignee, who must rely on the original lending institution to collect sums due and to otherwise enforce its rights against the agent bank which administers the loan or against the underlying borrower.

Pursuant to an SEC no-action letter, and because the Fund is allowed to purchase debt and debt securities, including debt

securities at private placement, the Fund will treat loan participations as securities and not subject to its fundamental investment restriction prohibiting the Fund from making loans.

There may not be a recognizable, liquid public market for loan participations. To the extent this is the case, the Fund would consider the loan participation as illiquid and subject to the Fund's restriction on investing no more than 15% of its net assets in illiquid securities.

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Where required by applicable SEC positions, the Fund will treat both the corporate borrower and the bank selling the participation interest as an issuer for purposes of its fundamental investment restriction on diversification.

Various service fees received by the Fund from loan participations, may be treated as non-interest income depending on the nature of the fee (commitment, takedown, commission, service or loan origination). To the extent the service fees are not interest income, they will not qualify as income under Section 851(b) of the Internal Revenue Code. Thus the sum of such fees plus any other non-qualifying income earned by the Fund cannot exceed 10% of total income.

Trade Claims

Trade claims are non-securitized rights of payment arising from obligations other than borrowed funds. Trade claims typically arise when, in the ordinary course of business, vendors and suppliers extend credit to a company by offering payment terms. Generally, when a company files for bankruptcy protection payments on these trade claims cease and the claims are subject to compromise along with the other debts of the company. Trade claims typically are bought and sold at a discount reflecting the degree of uncertainty with respect to the timing and extent of recovery. In addition to the risks otherwise associated with low-quality obligations, trade claims have other risks, including the possibility that the amount of the claim may be disputed by the obligor.

Over the last few years a market for the trade claims of bankrupt companies has developed. Many vendors are either unwilling or lack the resources to hold their claim through the extended bankruptcy process with an uncertain outcome and timing. Some vendors are also aggressive in establishing reserves against these receivables, so that the sale of the claim at a discount may not result in the recognition of a loss.

Trade claims can represent an attractive investment

opportunity because these claims typically are priced at a discount to comparable public securities. This discount is a reflection of both a less liquid market, a smaller universe of potential buyers and the risks peculiar to trade claim investing. It is not unusual for trade claims to be priced at a discount to public securities that have an equal or lower priority claim.

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As noted above, investing in trade claims does carry some unique risks which include:

- o Establishing the Amount of the Claim. Frequently, the supplier's estimate of its receivable will differ from the customer's estimate of its payable. Resolution of these differences can result in a reduction in the amount of the claim. This risk can be reduced by only purchasing scheduled claims (claims already listed as liabilities by the debtor) and seeking representations from the seller.
- o Defenses to Claims. The debtor has a variety of defenses that can be asserted under the bankruptcy code against any claim. Trade claims are subject to these defenses, the most common of which for trade claims relates to preference payments. (Preference payments are all payments made by the debtor during the 90 days prior to the filing. These payments are presumed to have benefited the receiving creditor at the expense of the other creditors. The receiving creditor may be required to return the payment unless it can show the payments were received in the ordinary course of business.) While none of these defenses can result in any additional liability of the purchaser of the trade claim, they can reduce or wipe out the entire purchased claim. This risk can be reduced by seeking representations and indemnification from the seller.
- o Documentation/Indemnification. Each trade claim purchased requires documentation that must be negotiated between the buyer and seller. This documentation is extremely important since it can protect the purchaser from losses such as those described above. Legal expenses in negotiating a purchase agreement can be fairly high. Additionally, it is important to note that the value of an indemnification depends on the sellers credit.
- o Volatile Pricing Due to Illiquid Market. There are only a handful of brokers for trade claims and the quoted

price of these claims can be volatile. Generally, it is expected that Trade Claims would be considered illiquid investments.

- o No Current Yield/Ultimate Recovery. Trade claims are almost never entitled to earn interest. As a result, the return on such an investment is very sensitive to the length of the bankruptcy, which is uncertain. Although not unique to trade claims, it is worth noting that the ultimate recovery on the claim is uncertain and there is no way to calculate a conventional yield to maturity on

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this investment. Additionally, the exit for this investment is a plan of reorganization which may include the distribution of new securities. These securities may be as illiquid as the original trade claim investment.

- o Tax Issue. Although the issue is not free from doubt, it is likely that Trade Claims would be treated as non-securities investments. As a result, any gains would be considered "non-qualifying" under the Internal Revenue Code. The Fund may have up to 10% of its gross income (including capital gains) derived from non-qualifying sources.

High Yield and Personal Strategy Funds

Zero Coupon and Pay-in-Kind Bonds

A zero coupon security has no cash coupon payments. Instead, the issuer sells the security at a substantial discount from its maturity value. The interest received by the investor from holding this security to maturity is the difference between the maturity value and the purchase price. The advantage to the investor is that reinvestment risk of the income received during the life of the bond is eliminated. However, zero-coupon bonds like other bonds retain interest rate and credit risk and usually display more price volatility than those securities that pay a cash coupon.

Pay-in-Kind (PIK) Instruments are securities that pay interest in either cash or additional securities, at the issuer's option, for a specified period. PIK's, like zero coupon bonds, are designed to give an issuer flexibility in managing cash flow. PIK bonds can be either senior or subordinated debt and trade flat (i.e., without accrued interest). The price of PIK bonds is expected to reflect the market value of the underlying debt plus an amount representing accrued interest since the last payment. PIK's are usually less volatile than zero coupon bonds, but more volatile than cash pay securities.

For federal income tax purposes, these types of bonds will require the recognition of gross income each year even though no cash may be paid to the Fund until the maturity or call date of the bond. The Fund will nonetheless be required to distribute substantially all of this gross income each year to comply with the Internal Revenue Code, and such distributions could reduce the amount of cash available for investment by the Fund.

High Yield, Personal Strategy, and New Income Funds

Warrants

The Fund may acquire warrants. Warrants are pure speculation in that they have no voting rights, pay no dividends and have no rights with respect to the assets of the corporation issuing them. Warrants basically are options to purchase equity securities at a specific price valid for a specific period of time. They do not represent ownership of the securities, but only the right to buy them. Warrants differ from call options in that warrants are issued by the issuer of the security which may be purchased on their exercise, whereas call options may be written or issued by anyone. The prices of warrants do not necessarily move parallel to the prices of the underlying securities.

Adjustable Rate, High Yield, New Income, Short-Term Bond, and Personal Strategy Funds

Hybrid Instruments

Hybrid Instruments have recently been developed and combine the elements of futures contracts or options with those of debt, preferred equity or a depository instrument (hereinafter "Hybrid Instruments"). Often these Hybrid Instruments are indexed to the price of a commodity, particular currency, or a domestic or foreign debt or equity securities index. Hybrid Instruments may take a variety of forms, including, but not limited to, debt instruments with interest or principal payments or redemption terms determined by reference to the value of a currency or commodity or securities index at a future point in time, preferred stock with dividend rates determined by reference to the value of a currency, or convertible securities with the conversion terms related to a particular commodity.

The risks of investing in Hybrid Instruments reflect a combination of the risks of investing in securities, options, futures and currencies, including volatility and lack of

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liquidity. Reference is made to the discussion of futures,

options, and forward contracts herein for a discussion of these risks. Further, the prices of the Hybrid Instrument and the related commodity or currency may not move in the same direction or at the same time. Hybrid Instruments may bear interest or pay preferred dividends at below market (or even relatively nominal) rates. Alternatively, Hybrid Instruments may bear interest at above market rates but bear an increased risk of principal loss (or gain). In addition, because the purchase and sale of Hybrid Instruments could take place in an over-the-counter market or in a private transaction between the Fund and the seller of the Hybrid Instrument, the creditworthiness of the counter party to the transaction would be a risk factor which the Fund would have to consider. Hybrid Instruments also may not be subject to regulation of the Commodities Futures Trading Commission ("CFTC"), which generally regulates the trading of commodity futures by U.S. persons, the SEC, which regulates the offer and sale of securities by and to U.S. persons, or any other governmental regulatory authority.

All Funds

When-Issued Securities and Forward Commitment Contracts

The Fund may purchase securities on a "when-issued" or delayed delivery basis ("When-Issueds") and may purchase securities on a forward commitment basis ("Forwards"). Any or all of the Fund's investments in debt securities may be in the form of When-Issueds and Forwards. The price of such securities, which may be expressed in yield terms, is fixed at the time the commitment to purchase is made, but delivery and payment take place at a later date. Normally, the settlement date occurs within 90 days of the purchase for When-Issueds, but may be substantially longer for Forwards. During the period between purchase and settlement, no payment is made by the Fund to the issuer and no interest accrues to the Fund. The purchase of these securities will result in a loss if their value declines prior to the settlement date. This could occur, for example, if interest rates increase prior to settlement. The longer the period between purchase and settlement, the greater the risks are. At the time the Fund makes the commitment to purchase these securities, it will record the transaction and reflect the value of the security in determining its net asset value. The Fund will cover these securities by maintaining cash and/or liquid, high-grade debt securities with its custodian bank equal in value to commitments for them during the time between the purchase and the settlement. Therefore, the longer this period, the longer the period during which alternative investment options are not available to the Fund (to the extent of the securities used for cover). Such securities either will mature or, if necessary, be sold on or before the settlement date.

To the extent the Fund remains fully or almost fully invested (in securities with a remaining maturity of more than one year) at the same time it purchases these securities, there will be greater fluctuations in the Fund's net asset value than if the Fund did not purchase them.

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Additional Adjustable Rate Securities

Certain securities may be issued with adjustable interest rates that are reset periodically by pre-determined formulas or indexes in order to minimize movements in the principal value of the investment. Such securities may have long-term maturities, but may be treated as a short-term investment under certain conditions. Generally, as interest rates decrease or increase, the potential for capital appreciation or depreciation on these securities is less than for fixed-rate obligations. These securities may take the following forms:

Variable Rate Securities. Variable rate instruments are those whose terms provide for the adjustment of their interest rates on set dates and which, upon such adjustment, can reasonably be expected to have a market value that approximates its par value. A variable rate instrument, the principal amount of which is scheduled to be paid in 397 days or less, is deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate. A variable rate instrument which is subject to a demand feature entitles the purchaser to receive the principal amount of the underlying security or securities, either (i) upon notice of no more than 30 days or (ii) at specified intervals not exceeding 397 days and upon no more than 30 days' notice, is deemed to have a maturity equal to the longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand.

Floating Rate Securities. Floating rate instruments are those whose terms provide for the adjustment of their interest rates whenever a specified interest rate changes and which, at any time, can reasonably be expected to have a market value that approximates its par value. The maturity of a floating rate instrument is deemed to be the period remaining until the date (noted on the face of the instrument) on which the principal amount must be paid, or in the case of an instrument called for redemption, the date on which the redemption payment must be made. Floating rate instruments with demand features are deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand.

Put Option Bonds. Long-term obligations with maturities longer than one year may provide purchasers an optional or

mandatory tender of the security at par value at predetermined intervals, often ranging from one month to several years (e.g., a 30-year bond with a five-year tender period). These instruments are deemed to have a maturity equal to the period remaining to the put date.

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Adjustable Rate, High Yield, New Income, Prime Reserve, Short-Term Bond, and Personal Strategy Funds

Illiquid or Restricted Securities

Restricted securities may be sold only in privately negotiated transactions or in a public offering with respect to which a registration statement is in effect under the Securities Act of 1933 (the "1933 Act"). Where registration is required, the Fund may be obligated to pay all or part of the registration expenses and a considerable period may elapse between the time of the decision to sell and the time the Fund may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the Fund might obtain a less favorable price than prevailed when it decided to sell. Restricted securities will be priced at fair value as determined in accordance with procedures prescribed by the Fund's Board of Directors/Trustees. If through the appreciation of illiquid securities or the depreciation of liquid securities, the Fund should be in a position where more than 15% of the value of its net assets is invested in illiquid assets, including restricted securities, the Fund will take appropriate steps to protect liquidity.

Notwithstanding the above, the Fund may purchase securities which, while privately placed, are eligible for purchase and sale under Rule 144A under the 1933 Act. This rule permits certain qualified institutional buyers, such as the Fund, to trade in privately placed securities even though such securities are not registered under the 1933 Act. T. Rowe Price under the supervision of the Fund's Board of Directors/Trustees, will consider whether securities purchased under Rule 144A are illiquid and thus subject to the Fund's restriction of investing no more than 15% (10% for Prime Reserve Fund) of its net assets in illiquid securities. A determination of whether a Rule 144A security is liquid or not is a question of fact. In making this determination, T. Rowe Price will consider the trading markets for the specific security taking into account the unregistered nature of a Rule 144A security. In addition, T. Rowe Price could consider the (1) frequency of trades and quotes, (2) number of dealers and potential purchases, (3) dealer undertakings to make a market, and (4) the nature of the security and of marketplace trades (e.g., the time needed to dispose of the security, the

method of soliciting offers and the mechanics of transfer). The liquidity of Rule 144A securities would be monitored, and if as a result of changed conditions it is determined that a Rule 144A security is no longer liquid, the Fund's holdings of illiquid securities would be reviewed to determine what, if any, steps are required to assure that the Fund does not invest more than 15% (10% for Prime Reserve and U.S. Treasury Money Funds) of its net

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assets in illiquid securities. Investing in Rule 144A securities could have the effect of increasing the amount of the Fund's assets invested in illiquid securities if qualified institutional buyers are unwilling to purchase such securities.

New Income and Short-Term Bond Funds

Industry Concentration

When the market for corporate debt securities is dominated by issues in the gas utility, gas transmission utility, electric utility, telephone utility, or petroleum industry, the Fund will as a matter of fundamental policy concentrate more than 25%, but not more than 50%, of its assets, in any one such industry, if the Fund has cash for such investment (i.e., will not sell portfolio securities to raise cash) and, if in T. Rowe Price's judgment, the return available and the marketability, quality, and availability of the debt securities of such industry justifies such concentration in light of the Fund's investment objective. Domination would exist with respect to any one such industry, when, in the preceding 30-day period, more than 25% of all new-issue corporate debt offerings (within the four highest grades of Moody's or S&P and with maturities of 10 years or less) of \$25,000,000 or more consisted of issues in such industry. Although the Fund will normally purchase corporate debt securities in the secondary market as opposed to new offerings, T. Rowe Price believes that the new issue-based dominance standard, as defined above, is appropriate because it is easily determined and represents an accurate correlation to the secondary market. Investors should understand that concentration in any industry may result in increased risk. Investments in any of these industries may be affected by environmental conditions, energy conservation programs, fuel shortages, difficulty in obtaining adequate return on capital in financing operations and large construction programs, and the ability of the capital markets to absorb debt issues. In addition, it is possible that the public service commissions which have jurisdiction over these industries may not grant future increases in rates sufficient to offset increases in operating expenses. These industries also face numerous legislative and regulatory uncertainties at both federal and state government levels. Management believes that any risk to the Fund which might result from concentration in any

industry will be minimized by the Fund's practice of diversifying its investments in other respects. The Fund's policy with respect to industry concentration is a fundamental policy. (For investment restriction on industry concentration, see Investment Restriction (4) on page __.)

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PORTFOLIO MANAGEMENT PRACTICES

Lending of Portfolio Securities

Securities loans are made to broker-dealers or institutional investors or other persons, pursuant to agreements requiring that the loans be continuously secured by collateral at least equal at all times to the value of the securities lent marked to market on a daily basis. The collateral received will consist of cash, U.S. government securities, letters of credit or such other collateral as may be permitted under its investment program. While the securities are being lent, the Fund will continue to receive the equivalent of the interest or dividends paid by the issuer on the securities, as well as interest on the investment of the collateral or a fee from the borrower. The Fund has a right to call each loan and obtain the securities on five business days' notice or, in connection with securities trading on foreign markets, within such longer period of time which coincides with the normal settlement period for purchases and sales of such securities in such foreign markets. The Fund will not have the right to vote securities while they are being lent, but it will call a loan in anticipation of any important vote. The risks in lending portfolio securities, as with other extensions of secured credit, consist of possible delay in receiving additional collateral or in the recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. Loans will only be made to firms deemed by T. Rowe Price to be of good standing and will not be made unless, in the judgment of T. Rowe Price, the consideration to be earned from such loans would justify the risk.

Other Lending/Borrowing

Subject to approval by the Securities and Exchange Commission and certain state regulatory agencies, the Fund may make loans to, or borrow funds from, other mutual funds sponsored or advised by T. Rowe Price or Rowe Price-Fleming International, Inc. (collectively, "Price Funds"). The Fund has no current intention of engaging in these practices at this time.

Repurchase Agreements

The Fund may enter into a repurchase agreement through which

an investor (such as the Fund) purchases a security (known as the "underlying security") from a well-established securities dealer or a bank that is a member of the Federal Reserve System. Any such dealer or bank will be on T. Rowe Price's approved list.

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At that time, the bank or securities dealer agrees to repurchase the underlying security at the same price, plus specified interest. Repurchase agreements are generally for a short period of time, often less than a week. Repurchase agreements which do not provide for payment within seven days will be treated as illiquid securities. The Fund will only enter into repurchase agreements where (i) (A) Prime Reserve and U.S. Treasury Money Funds--the underlying securities are either U.S. government securities or securities that, at the time the repurchase agreement is entered into, are rated in the highest rating category by the requisite number of NRSROs (as required by Rule 2a-7 under the 1940 Act) and otherwise are of the type (excluding maturity limitations) which the Fund's investment guidelines would allow it to purchase directly, (B) Adjustable Rate, GNMA, High Yield, New Income, Short-Term Bond, Personal Strategy, and U.S. Treasury Intermediate and Long-Term Funds--the underlying securities are of the type (excluding maturity limitations) which the Fund's investment guidelines would allow it to purchase directly, (ii) the market value of the underlying security, including interest accrued, will be at all times equal to or exceed the value of the repurchase agreement, and (iii) payment for the underlying security is made only upon physical delivery or evidence of book-entry transfer to the account of the custodian or a bank acting as agent. In the event of a bankruptcy or other default of a seller of a repurchase agreement, the Fund could experience both delays in liquidating the underlying security and losses, including: (a) possible decline in the value of the underlying security during the period while the Fund seeks to enforce its rights thereto; (b) possible subnormal levels of income and lack of access to income during this period; and (c) expenses of enforcing its rights.

Reverse Repurchase Agreements

Although the Fund has no current intention, in the foreseeable future, of engaging in reverse repurchase agreements, the Fund reserves the right to do so. Reverse repurchase agreements are ordinary repurchase agreements in which a Fund is the seller of, rather than the investor in, securities, and agrees to repurchase them at an agreed upon time and price. Use of a reverse repurchase agreement may be preferable to a regular sale and later repurchase of the securities because it avoids certain market risks and transaction costs. A reverse repurchase agreement may be viewed as a type of borrowing by the Fund,

subject to Investment Restriction (1). (See "Investment Restrictions," page __.)

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High Yield Fund

Short Sales

The Fund may make short sales for hedging purposes to protect the Fund against companies whose credit is deteriorating. Short sales are transactions in which the Fund sells a security it does not own in anticipation of a decline in the market value of that security. The Fund's short sales would be limited to situations where the Fund owns a debt security of a company and would sell short the common or preferred stock or another debt security at a different level of the capital structure of the same company. No securities will be sold short if, after the effect is given to any such short sale, the total market value of all securities sold short would exceed 2% of the value of the Fund's net assets.

To complete a short sale transaction, the Fund must borrow the security to make delivery to the buyer. The Fund then is obligated to replace the security borrowed by purchasing it at the market price at the time of replacement. The price at such time may be more or less than the price at which the security was sold by the Fund. Until the security is replaced, the Fund is required to pay to the lender amounts equal to any dividends or interest which accrue during the period of the loan. To borrow the security, the Fund also may be required to pay a premium, which would increase the cost of the security sold. The proceeds of the short sale will be retained by the broker, to the extent necessary to meet margin requirements, until the short position is closed out.

Until the Fund replaces a borrowed security in connection with a short sale, the Fund will: (a) maintain daily a segregated account, containing cash or U.S. government securities, at such a level that (i) the amount deposited in the account plus the amount deposited with the broker as collateral will equal the current value of the security sold short and (ii) the amount deposited in the segregated account plus the amount deposited with the broker as collateral will not be less than the market value of the security at the time its was sold short; or (b) otherwise cover its short position.

The Fund will incur a loss as a result of the short sale if the price of the security sold short increases between the date of the short sale and the date on which the Fund replaces the borrowed security. The Fund will realize a gain if the security sold short declines in price between those dates. This result is the opposite of what one would expect from a cash purchase of a long position in a security. The amount of any gain will be

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decreased, and the amount of any loss increased, by the amount of any premium, dividends or interest the Fund may be required to pay in connection with a short sale. Any gain or loss on the security sold short would be separate from a gain or loss on the Fund security being hedged by the short sale.

All Funds

Options

Writing Covered Call Options

The Fund may write (sell) American or European style "covered" call options and purchase options to close out options previously written by a Fund. In writing covered call options, the Fund expects to generate additional premium income which should serve to enhance the Fund's total return and reduce the effect of any price decline of the security or currency involved in the option. Covered call options will generally be written on securities or currencies which, in T. Rowe Price's opinion, are not expected to have any major price increases or moves in the near future but which, over the long term, are deemed to be attractive investments for the Fund.

A call option gives the holder (buyer) the "right to purchase" a security or currency at a specified price (the exercise price) at expiration of the option (European style) or at any time until a certain date (the expiration date) (American style). So long as the obligation of the writer of a call option continues, he may be assigned an exercise notice by the broker-dealer through whom such option was sold, requiring him to deliver the underlying security or currency against payment of the exercise price. This obligation terminates upon the expiration of the call option, or such earlier time at which the writer effects a closing purchase transaction by repurchasing an option identical to that previously sold. To secure his obligation to deliver the underlying security or currency in the case of a call option, a writer is required to deposit in escrow the underlying security or currency or other assets in accordance with the rules of a clearing corporation.

The Fund will write only covered call options. This means that the Fund will own the security or currency subject to the option or an option to purchase the same underlying security or currency, having an exercise price equal to or less than the exercise price of the "covered" option, or will establish and maintain with its custodian for the term of the option, an account consisting of cash, U.S. government securities or other liquid high-grade debt obligations having a value equal to the fluctuating market value of the optioned securities or currencies.

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Portfolio securities or currencies on which call options may be written will be purchased solely on the basis of investment considerations consistent with the Fund's investment objective. The writing of covered call options is a conservative investment technique believed to involve relatively little risk (in contrast to the writing of naked or uncovered options, which the Fund will not do), but capable of enhancing the Fund's total return. When writing a covered call option, a Fund, in return for the premium, gives up the opportunity for profit from a price increase in the underlying security or currency above the exercise price, but conversely retains the risk of loss should the price of the security or currency decline. Unlike one who owns securities or currencies not subject to an option, the Fund has no control over when it may be required to sell the underlying securities or currencies, since it may be assigned an exercise notice at any time prior to the expiration of its obligation as a writer. If a call option which the Fund has written expires, the Fund will realize a gain in the amount of the premium; however, such gain may be offset by a decline in the market value of the underlying security or currency during the option period. If the call option is exercised, the Fund will realize a gain or loss from the sale of the underlying security or currency. The Fund does not consider a security or currency covered by a call to be "pledged" as that term is used in the Fund's policy which limits the pledging or mortgaging of its assets.

The premium received is the market value of an option. The premium the Fund will receive from writing a call option will reflect, among other things, the current market price of the underlying security or currency, the relationship of the exercise price to such market price, the historical price volatility of the underlying security or currency, and the length of the option period. Once the decision to write a call option has been made, T. Rowe Price, in determining whether a particular call option should be written on a particular security or currency, will consider the reasonableness of the anticipated premium and the likelihood that a liquid secondary market will exist for those options. The premium received by the Fund for writing covered call options will be recorded as a liability of the Fund. This

liability will be adjusted daily to the option's current market value, which will be the latest sale price at the time at which the net asset value per share of the Fund is computed (close of the New York Stock Exchange), or, in the absence of such sale, the latest asked price. The option will be terminated upon expiration of the option, the purchase of an identical option in a closing transaction, or delivery of the underlying security or currency upon the exercise of the option.

Closing transactions will be effected in order to realize a profit on an outstanding call option, to prevent an underlying

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security or currency from being called, or, to permit the sale of the underlying security or currency. Furthermore, effecting a closing transaction will permit the Fund to write another call option on the underlying security or currency with either a different exercise price or expiration date or both. If the Fund desires to sell a particular security or currency from its portfolio on which it has written a call option, or purchased a put option, it will seek to effect a closing transaction prior to, or concurrently with, the sale of the security or currency. There is, of course, no assurance that the Fund will be able to effect such closing transactions at favorable prices. If the Fund cannot enter into such a transaction, it may be required to hold a security or currency that it might otherwise have sold. When the Fund writes a covered call option, it runs the risk of not being able to participate in the appreciation of the underlying securities or currencies above the exercise price, as well as the risk of being required to hold on to securities or currencies that are depreciating in value. This could result in higher transaction costs. The Fund will pay transaction costs in connection with the writing of options to close out previously written options. Such transaction costs are normally higher than those applicable to purchases and sales of portfolio securities.

Call options written by the Fund will normally have expiration dates of less than nine months from the date written. The exercise price of the options may be below, equal to, or above the current market values of the underlying securities or currencies at the time the options are written. From time to time, the Fund may purchase an underlying security or currency for delivery in accordance with an exercise notice of a call option assigned to it, rather than delivering such security or currency from its portfolio. In such cases, additional costs may be incurred.

The Fund will realize a profit or loss from a closing purchase transaction if the cost of the transaction is less or more than the premium received from the writing of the option. Because increases in the market price of a call option will

generally reflect increases in the market price of the underlying security or currency, any loss resulting from the repurchase of a call option is likely to be offset in whole or in part by appreciation of the underlying security or currency owned by the Fund.

In order to comply with the requirements of several states, the Fund will not write a covered call option if, as a result, the aggregate market value of all portfolio securities or currencies covering call or put options exceeds 25% of the market value of the Fund's net assets. Should these state laws change or should the Fund obtain a waiver of its application, the Fund reserves the right to increase this percentage. In calculating

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the 25% limit, the Fund will offset, against the value of assets covering written calls and puts, the value of purchased calls and puts on identical securities or currencies with identical maturity dates.

Writing Covered Put Options

The Fund may write American or European style covered put options and purchase options to close out options previously written by the Fund. A put option gives the purchaser of the option the right to sell, and the writer (seller) has the obligation to buy, the underlying security or currency at the exercise price during the option period (American style) or at the expiration of the option (European style). So long as the obligation of the writer continues, he may be assigned an exercise notice by the broker-dealer through whom such option was sold, requiring him to make payment of the exercise price against delivery of the underlying security or currency. The operation of put options in other respects, including their related risks and rewards, is substantially identical to that of call options.

The Fund would write put options only on a covered basis, which means that the Fund would maintain in a segregated account cash, U.S. government securities or other liquid high-grade debt obligations in an amount not less than the exercise price or the Fund will own an option to sell the underlying security or currency subject to the option having an exercise price equal to or greater than the exercise price of the "covered" option at all times while the put option is outstanding. (The rules of a clearing corporation currently require that such assets be deposited in escrow to secure payment of the exercise price.)

The Fund would generally write covered put options in circumstances where T. Rowe Price wishes to purchase the underlying security or currency for the Fund's portfolio at a price lower than the current market price of the security or

currency. In such event the Fund would write a put option at an exercise price which, reduced by the premium received on the option, reflects the lower price it is willing to pay. Since the Fund would also receive interest on debt securities or currencies maintained to cover the exercise price of the option, this technique could be used to enhance current return during periods of market uncertainty. The risk in such a transaction would be that the market price of the underlying security or currency would decline below the exercise price less the premiums received. Such a decline could be substantial and result in a significant loss to the Fund. In addition, the Fund, because it does not own the specific securities or currencies which it may be required to purchase in exercise of the put, cannot benefit from appreciation, if any, with respect to such specific securities or currencies.

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In order to comply with the requirements of several states, the Fund will not write a covered put option if, as a result, the aggregate market value of all portfolio securities or currencies covering put or call options exceeds 25% of the market value of the Fund's net assets. Should these state laws change or should the Fund obtain a waiver of its application, the Fund reserves the right to increase this percentage. In calculating the 25% limit, the Fund will offset, against the value of assets covering written puts and calls, the value of purchased puts and calls on identical securities or currencies with identical maturity dates.

Purchasing Put Options

The Fund may purchase American or European style put options. As the holder of a put option, the Fund has the right to sell the underlying security or currency at the exercise price at any time during the option period (American style) or at the expiration of the option (European style). The Fund may enter into closing sale transactions with respect to such options, exercise them or permit them to expire. The Fund may purchase put options for defensive purposes in order to protect against an anticipated decline in the value of its securities or currencies. An example of such use of put options is provided below.

The Fund may purchase a put option on an underlying security or currency (a "protective put") owned by the Fund as a defensive technique in order to protect against an anticipated decline in the value of the security or currency. Such hedge protection is provided only during the life of the put option when the Fund, as the holder of the put option, is able to sell the underlying security or currency at the put exercise price regardless of any decline in the underlying security's market price or currency's exchange value. For example, a put option may be purchased in order to protect unrealized appreciation of a security or

currency where T. Rowe Price deems it desirable to continue to hold the security or currency because of tax considerations. The premium paid for the put option and any transaction costs would reduce any capital gain otherwise available for distribution when the security or currency is eventually sold.

The Fund may also purchase put options at a time when the Fund does not own the underlying security or currency. By purchasing put options on a security or currency it does not own, the Fund seeks to benefit from a decline in the market price of the underlying security or currency. If the put option is not sold when it has remaining value, and if the market price of the underlying security or currency remains equal to or greater than the exercise price during the life of the put option, the Fund will lose its entire investment in the put option. In order for the purchase of a put option to be profitable, the market price of the underlying security or currency must decline sufficiently

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below the exercise price to cover the premium and transaction costs, unless the put option is sold in a closing sale transaction.

To the extent required by the laws of certain states, the Fund may not be permitted to commit more than 5% of its assets to premiums when purchasing put and call options. Should these state laws change or should the Fund obtain a waiver of its application, the Fund may commit more than 5% of its assets to premiums when purchasing call and put options. The premium paid by the Fund when purchasing a put option will be recorded as an asset of the Fund. This asset will be adjusted daily to the option's current market value, which will be the latest sale price at the time at which the net asset value per share of the Fund is computed (close of New York Stock Exchange), or, in the absence of such sale, the latest bid price. This asset will be terminated upon expiration of the option, the selling (writing) of an identical option in a closing transaction, or the delivery of the underlying security or currency upon the exercise of the option.

Purchasing Call Options

The Fund may purchase American or European style call options. As the holder of a call option, the Fund has the right to purchase the underlying security or currency at the exercise price at any time during the option period (American style) or at the expiration of the option (European style). The Fund may enter into closing sale transactions with respect to such options, exercise them or permit them to expire. The Fund may purchase call options for the purpose of increasing its current return or avoiding tax consequences which could reduce its

current return. The Fund may also purchase call options in order to acquire the underlying securities or currencies. Examples of such uses of call options are provided below.

Call options may be purchased by the Fund for the purpose of acquiring the underlying securities or currencies for its portfolio. Utilized in this fashion, the purchase of call options enables the Fund to acquire the securities or currencies at the exercise price of the call option plus the premium paid. At times the net cost of acquiring securities or currencies in this manner may be less than the cost of acquiring the securities or currencies directly. This technique may also be useful to the Fund in purchasing a large block of securities or currencies that would be more difficult to acquire by direct market purchases. So long as it holds such a call option rather than the underlying security or currency itself, the Fund is partially protected from any unexpected decline in the market price of the underlying security or currency and in such event could allow the call

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option to expire, incurring a loss only to the extent of the premium paid for the option.

To the extent required by the laws of certain states, the Fund may not be permitted to commit more than 5% of its assets to premiums when purchasing call and put options. Should these state laws change or should the Fund obtain a waiver of its application, the Fund may commit more than 5% of its assets to premiums when purchasing call and put options. The Fund may also purchase call options on underlying securities or currencies it owns in order to protect unrealized gains on call options previously written by it. A call option would be purchased for this purpose where tax considerations make it inadvisable to realize such gains through a closing purchase transaction. Call options may also be purchased at times to avoid realizing losses.

Dealer (Over-the-Counter) Options

The Fund may engage in transactions involving dealer options. Certain risks are specific to dealer options. While the Fund would look to a clearing corporation to exercise exchange-traded options, if the Fund were to purchase a dealer option, it would rely on the dealer from whom it purchased the option to perform if the option were exercised. Failure by the dealer to do so would result in the loss of the premium paid by the Fund as well as loss of the expected benefit of the transaction.

Exchange-traded options generally have a continuous liquid market while dealer options have none. Consequently, the Fund will generally be able to realize the value of a dealer option it

has purchased only by exercising it or reselling it to the dealer who issued it. Similarly, when the Fund writes a dealer option, it generally will be able to close out the option prior to its expiration only by entering into a closing purchase transaction with the dealer to which the Fund originally wrote the option. While the Fund will seek to enter into dealer options only with dealers who will agree to and which are expected to be capable of entering into closing transactions with the Fund, there can be no assurance that the Fund will be able to liquidate a dealer option at a favorable price at any time prior to expiration. Until the Fund, as a covered dealer call option writer, is able to effect a closing purchase transaction, it will not be able to liquidate securities (or other assets) or currencies used as cover until the option expires or is exercised. In the event of insolvency of the contra party, the Fund may be unable to liquidate a dealer option. With respect to options written by the Fund, the inability to enter into a closing transaction may result in material losses to the Fund. For example, since the Fund must maintain a secured position with respect to any call option on a

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security it writes, the Fund may not sell the assets which it has segregated to secure the position while it is obligated under the option. This requirement may impair a Fund's ability to sell portfolio securities or currencies at a time when such sale might be advantageous.

The Staff of the SEC has taken the position that purchased dealer options and the assets used to secure the written dealer options are illiquid securities. The Fund may treat the cover used for written OTC options as liquid if the dealer agrees that the Fund may repurchase the OTC option it has written for a maximum price to be calculated by a predetermined formula. In such cases, the OTC option would be considered illiquid only to the extent the maximum repurchase price under the formula exceeds the intrinsic value of the option. Accordingly, the Fund will treat dealer options as subject to the Fund's limitation on illiquid securities. If the SEC changes its position on the liquidity of dealer options, the Fund will change its treatment of such instrument accordingly.

High Yield Fund

Spread Option Transactions

The Fund may purchase from and sell to securities dealers covered spread options. Such covered spread options are not presently exchange listed or traded. The purchase of a spread option gives the Fund the right to put, or sell, a security that it owns at a fixed dollar spread or fixed yield spread in relationship to another security that the Fund does not own, but

which is used as a benchmark. The risk to the Fund in purchasing covered spread options is the cost of the premium paid for the spread option and any transaction costs. In addition, there is no assurance that closing transactions will be available. The purchase of spread options will be used to protect the Fund against adverse changes in prevailing credit quality spreads, i.e., the yield spread between high quality and lower quality securities. Such protection is only provided during the life of the spread option. The security covering the spread option will be maintained in a segregated account by the Fund's custodian. The Fund does not consider a security covered by a spread option to be "pledged" as that term is used in the Fund's policy limiting the pledging or mortgaging of its assets. The Fund may also buy and sell uncovered spread options. Such options would be used for the same purposes and be subject to similar risks as covered spread options. However, in an uncovered spread option, the Fund would not own either of the securities involved in the spread.

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Futures Contracts

Transactions in Futures

The Fund may enter into futures contracts, including stock index, interest rate and currency futures ("futures or futures contracts").

Stock index futures contracts may be used to provide a hedge for a portion of the Fund's portfolio, as a cash management tool, or as an efficient way for T. Rowe Price to implement either an increase or decrease in portfolio market exposure in response to changing market conditions. The Fund may purchase or sell futures contracts with respect to any stock index. Nevertheless, to hedge the Fund's portfolio successfully, the Fund must sell futures contracts with respect to indices or subindices whose movements will have a significant correlation with movements in the prices of the Fund's portfolio securities.

Interest rate or currency futures contracts may be used as a hedge against changes in prevailing levels of interest rates or currency exchange rates in order to establish more definitely the effective return on securities or currencies held or intended to be acquired by the Fund. In this regard, the Fund could sell interest rate or currency futures as an offset against the effect of expected increases in interest rates or currency exchange rates and purchase such futures as an offset against the effect of expected declines in interest rates or currency exchange rates.

The Fund will enter into futures contracts which are traded

on national or foreign futures exchanges, and are standardized as to maturity date and underlying financial instrument. Futures exchanges and trading in the United States are regulated under the Commodity Exchange Act by the Commodity Futures Trading Commission ("CFTC"). Futures are traded in London, at the London International Financial Futures Exchange, in Paris, at the MATIF, and in Tokyo, at the Tokyo Stock Exchange. Although techniques other than the sale and purchase of futures contracts could be used for the above-referenced purposes, futures contracts offer an effective and relatively low cost means of implementing the Fund's objectives in these areas.

Regulatory Limitations

The Fund will engage in futures contracts and options thereon only for bona fide hedging, yield enhancement, and risk management purposes, in each case in accordance with rules and regulations of the CFTC and applicable state law.

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The Fund may not purchase or sell futures contracts or related options if, with respect to positions which do not qualify as bona fide hedging under applicable CFTC rules, the sum of the amounts of initial margin deposits and premiums paid on those positions would exceed 5% of the net asset value of the Fund after taking into account unrealized profits and unrealized losses on any such contracts it has entered into; provided, however, that in the case of an option that is in-the-money at the time of purchase, the in-the-money amount may be excluded in calculating the 5% limitation. For purposes of this policy options on futures contracts and foreign currency options traded on a commodities exchange will be considered "related options". This policy may be modified by the Board of Directors/Trustees without a shareholder vote and does not limit the percentage of the Fund's assets at risk to 5%.

In accordance with the rules of the State of California, the Fund may have to apply the above 5% test without excluding the value of initial margin and premiums paid for bona fide hedging positions.

The Fund's use of futures contracts will not result in leverage. Therefore, to the extent necessary, in instances involving the purchase of futures contracts or the writing of call or put options thereon by the Fund, an amount of cash, U.S. government securities or other liquid, high-grade debt obligations, equal to the market value of the futures contracts and options thereon (less any related margin deposits), will be identified in an account with the Fund's custodian to cover the position, or alternative cover (such as owning an offsetting

position) will be employed. Assets used as cover or held in an identified account cannot be sold while the position in the corresponding option or future is open, unless they are replaced with similar assets. As a result, the commitment of a large portion of a Fund's assets to cover or identified accounts could impede portfolio management or the fund's ability to meet redemption requests or other current obligations.

If the CFTC or other regulatory authorities adopt different (including less stringent) or additional restrictions, the Fund would comply with such new restrictions.

Trading in Futures Contracts

A futures contract provides for the future sale by one party and purchase by another party of a specified amount of a specific financial instrument (e.g., units of a debt security) for a specified price, date, time and place designated at the time the contract is made. Brokerage fees are incurred when a futures contract is bought or sold and margin deposits must be

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maintained. Entering into a contract to buy is commonly referred to as buying or purchasing a contract or holding a long position. Entering into a contract to sell is commonly referred to as selling a contract or holding a short position.

Unlike when the Fund purchases or sells a security, no price would be paid or received by the Fund upon the purchase or sale of a futures contract. Upon entering into a futures contract, and to maintain the Fund's open positions in futures contracts, the Fund would be required to deposit with its custodian in a segregated account in the name of the futures broker an amount of cash, U.S. government securities, suitable money market instruments, or liquid, high-grade debt securities, known as "initial margin." The margin required for a particular futures contract is set by the exchange on which the contract is traded, and may be significantly modified from time to time by the exchange during the term of the contract. Futures contracts are customarily purchased and sold on margins that may range upward from less than 5% of the value of the contract being traded.

If the price of an open futures contract changes (by increase in the case of a sale or by decrease in the case of a purchase) so that the loss on the futures contract reaches a point at which the margin on deposit does not satisfy margin requirements, the broker will require an increase in the margin. However, if the value of a position increases because of favorable price changes in the futures contract so that the margin deposit exceeds the required margin, the broker will pay the excess to the Fund.

These subsequent payments, called "variation margin," to and from the futures broker, are made on a daily basis as the price of the underlying assets fluctuate making the long and short positions in the futures contract more or less valuable, a process known as "marking to the market." The Fund expects to earn interest income on its margin deposits.

Although certain futures contracts, by their terms, require actual future delivery of and payment for the underlying instruments, in practice most futures contracts are usually closed out before the delivery date. Closing out an open futures contract purchase or sale is effected by entering into an offsetting futures contract sale or purchase, respectively, for the same aggregate amount of the identical securities and the same delivery date. If the offsetting purchase price is less than the original sale price, the Fund realizes a gain; if it is more, the Fund realizes a loss. Conversely, if the offsetting sale price is more than the original purchase price, the Fund realizes a gain; if it is less, the Fund realizes a loss. The transaction costs must also be included in these calculations.

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There can be no assurance, however, that the Fund will be able to enter into an offsetting transaction with respect to a particular futures contract at a particular time. If the Fund is not able to enter into an offsetting transaction, the Fund will continue to be required to maintain the margin deposits on the futures contract.

As an example of an offsetting transaction in which the underlying instrument is not delivered, the contractual obligations arising from the sale of one contract of September Treasury Bills on an exchange may be fulfilled at any time before delivery of the contract is required (i.e., on a specified date in September, the "delivery month") by the purchase of one contract of September Treasury Bills on the same exchange. In such instance, the difference between the price at which the futures contract was sold and the price paid for the offsetting purchase, after allowance for transaction costs, represents the profit or loss to the Fund.

The Standard & Poor's 500 Stock Index, composed of 500 selected common stocks, most of which are listed on the New York Stock Exchange, provides another example of how futures contracts operate. The S&P 500 Index assigns relative weightings to the common stocks included in the Index, and the Index fluctuates with changes in the market values of those common stocks. In the case of the S&P 500 Index, contracts are to buy or sell 500 units. Thus, if the value of the S&P 500 Index were \$150, one contract would be worth \$75,000 (500 units x \$150). The stock

index futures contract specifies that no delivery of the actual stock making up the index will take place. Instead, settlement in cash occurs. Over the life of the contract, the gain or loss realized by the Fund will equal the difference between the purchase (or sale) price of the contract and the price at which the contract is terminated. For example, if the Fund enters into a futures contract to buy 500 units of the S&P 500 Index at a specified future date at a contract price of \$150 and the S&P 500 Index is at \$154 on that future date, the Fund will gain \$2,000 (500 units x gain of \$4). If the Fund enters into a futures contract to sell 500 units of the stock index at a specified future date at a contract price of \$150 and the S&P 500 Index is at \$152 on that future date, the Fund will lose \$1,000 (500 units x loss of \$2).

Special Risks of Transactions in Futures Contracts

Volatility and Leverage. The prices of futures contracts are volatile and are influenced, among other things, by actual and anticipated changes in the market and interest rates, which in turn are affected by fiscal and monetary policies and national and international political and economic events.

Most United States futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of futures contract, no trades may be made on that day at a price beyond that limit. The daily limit governs only price movement during a particular trading day and therefore does not limit potential losses, because the limit may prevent the liquidation of unfavorable positions. Futures contract prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of futures positions and subjecting some futures traders to substantial losses.

Because of the low margin deposits required, futures trading involves an extremely high degree of leverage. As a result, a relatively small price movement in a futures contract may result in immediate and substantial loss, as well as gain, to the investor. For example, if at the time of purchase, 10% of the value of the futures contract is deposited as margin, a subsequent 10% decrease in the value of the futures contract would result in a total loss of the margin deposit, before any

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deduction for the transaction costs, if the account were then closed out. A 15% decrease would result in a loss equal to 150%

of the original margin deposit, if the contract were closed out. Thus, a purchase or sale of a futures contract may result in losses in excess of the amount invested in the futures contract. However, the Fund would presumably have sustained comparable losses if, instead of the futures contract, it had invested in the underlying financial instrument and sold it after the decline. Furthermore, in the case of a futures contract purchase, in order to be certain that the Fund has sufficient assets to satisfy its obligations under a futures contract, the Fund earmarks to the futures contract money market instruments equal in value to the current value of the underlying instrument less the margin deposit.

Liquidity. The Fund may elect to close some or all of its futures positions at any time prior to their expiration. The Fund would do so to reduce exposure represented by long futures positions or short futures positions. The Fund may close its positions by taking opposite positions which would operate to terminate the Fund's position in the futures contracts. Final determinations of variation margin would then be made, additional cash would be required to be paid by or released to the Fund, and the Fund would realize a loss or a gain.

Futures contracts may be closed out only on the exchange or board of trade where the contracts were initially traded. Although the Fund intends to purchase or sell futures contracts only on exchanges or boards of trade where there appears to be an active market, there is no assurance that a liquid market on an exchange or board of trade will exist for any particular contract at any particular time. In such event, it might not be possible to close a futures contract, and in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. However, in the event futures contracts have been used to hedge the underlying instruments, the Fund would continue to hold the underlying instruments subject to the hedge until the futures contracts could be terminated. In such circumstances, an increase in the price of underlying instruments, if any, might partially or completely offset losses on the futures contract. However, as described below, there is no guarantee that the price of the underlying instruments will, in fact, correlate with the price movements in the futures contract and thus provide an offset to losses on a futures contract.

Hedging Risk. A decision of whether, when, and how to hedge involves skill and judgment, and even a well-conceived hedge may be unsuccessful to some degree because of unexpected market behavior, market or interest rate trends. There are several

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risks in connection with the use by the Fund of futures contracts

as a hedging device. One risk arises because of the imperfect correlation between movements in the prices of the futures contracts and movements in the prices of the underlying instruments which are the subject of the hedge. T. Rowe Price will, however, attempt to reduce this risk by entering into futures contracts whose movements, in its judgment, will have a significant correlation with movements in the prices of the Fund's underlying instruments sought to be hedged.

Successful use of futures contracts by the Fund for hedging purposes is also subject to T. Rowe Price's ability to correctly predict movements in the direction of the market. It is possible that, when the Fund has sold futures to hedge its portfolio against a decline in the market, the index, indices, or instruments underlying futures might advance and the value of the underlying instruments held in the Fund's portfolio might decline. If this were to occur, the Fund would lose money on the futures and also would experience a decline in value in its underlying instruments. However, while this might occur to a certain degree, T. Rowe Price believes that over time the value of the Fund's portfolio will tend to move in the same direction as the market indices used to hedge the portfolio. It is also possible that if the Fund were to hedge against the possibility of a decline in the market (adversely affecting the underlying instruments held in its portfolio) and prices instead increased, the Fund would lose part or all of the benefit of increased value of those underlying instruments that it has hedged, because it would have offsetting losses in its futures positions. In addition, in such situations, if the Fund had insufficient cash, it might have to sell underlying instruments to meet daily variation margin requirements. Such sales of underlying instruments might be, but would not necessarily be, at increased prices (which would reflect the rising market). The Fund might have to sell underlying instruments at a time when it would be disadvantageous to do so.

In addition to the possibility that there might be an imperfect correlation, or no correlation at all, between price movements in the futures contracts and the portion of the portfolio being hedged, the price movements of futures contracts might not correlate perfectly with price movements in the underlying instruments due to certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors might close futures contracts through offsetting transactions, which could distort the normal relationship between the underlying instruments and futures markets. Second, the margin requirements in the futures market are less onerous than margin requirements in the securities markets, and as a result the futures market

might attract more speculators than the securities markets do. Increased participation by speculators in the futures market might also cause temporary price distortions. Due to the possibility of price distortion in the futures market and also because of the imperfect correlation between price movements in the underlying instruments and movements in the prices of futures contracts, even a correct forecast of general market trends by T. Rowe Price might not result in a successful hedging transaction over a very short time period.

Options on Futures Contracts

The Fund may purchase and sell options on the same types of futures in which it may invest.

Options on futures are similar to options on underlying instruments except that options on futures give the purchaser the right, in return for the premium paid, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put), rather than to purchase or sell the futures contract, at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by the delivery of the accumulated balance in the writer's futures margin account which represents the amount by which the market price of the futures contract, at exercise, exceeds (in the case of a call) or is less than (in the case of a put) the exercise price of the option on the futures contract. Purchasers of options who fail to exercise their options prior to the exercise date suffer a loss of the premium paid.

As an alternative to writing or purchasing call and put options on interest rate futures, the Fund may write or purchase call and put options on financial indices. Such options would be used in a manner similar to the use of options on futures contracts. From time to time, a single order to purchase or sell futures contracts (or options thereon) may be made on behalf of the Fund and other T. Rowe Price Funds. Such aggregated orders would be allocated among the Funds and the other T. Rowe Price Funds in a fair and non-discriminatory manner.

Special Risks of Transactions in Options on Futures Contracts

The risks described under "Special Risks of Transactions on Futures Contracts" are substantially the same as the risks of using options on futures. In addition, where the Fund seeks to close out an option position by writing or buying an offsetting option covering the same index, underlying instrument or contract and having the same exercise price and expiration date, its

ability to establish and close out positions on such options will be subject to the maintenance of a liquid secondary market. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options, or underlying instruments; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or a clearing corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in the class or series of options) would cease to exist, although outstanding options on the exchange that had been issued by a clearing corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms. There is no assurance that higher than anticipated trading activity or other unforeseen events might not, at times, render certain of the facilities of any of the clearing corporations inadequate, and thereby result in the institution by an exchange of special procedures which may interfere with the timely execution of customers' orders.

Additional Futures and Options Contracts

Although the Fund has no current intention of engaging in futures or options transactions other than those described above, it reserves the right to do so. Such futures and options trading might involve risks which differ from those involved in the futures and options described above.

Foreign Futures and Options

Participation in foreign futures and foreign options transactions involves the execution and clearing of trades on or subject to the rules of a foreign board of trade. Neither the National Futures Association nor any domestic exchange regulates activities of any foreign boards of trade, including the execution, delivery and clearing of transactions, or has the power to compel enforcement of the rules of a foreign board of trade or any applicable foreign law. This is true even if the exchange is formally linked to a domestic market so that a position taken on the market may be liquidated by a transaction on another market. Moreover, such laws or regulations will vary depending on the foreign country in which the foreign futures or

foreign options transaction occurs. For these reasons, when the

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Fund trades foreign futures or foreign options contracts, it may not be afforded certain of the protective measures provided by the Commodity Exchange Act, the CFTC's regulations and the rules of the National Futures Association and any domestic exchange, including the right to use reparations proceedings before the Commission and arbitration proceedings provided by the National Futures Association or any domestic futures exchange. In particular, funds received from the Fund for foreign futures or foreign options transactions may not be provided the same protections as funds received in respect of transactions on United States futures exchanges. In addition, the price of any foreign futures or foreign options contract and, therefore, the potential profit and loss thereon may be affected by any variance in the foreign exchange rate between the time the Fund's order is placed and the time it is liquidated, offset or exercised.

Intermediate and Long-Term Funds

Limitations on Futures and Options for Intermediate and Long-Term Funds

The Funds will not purchase a futures contract or option thereon if, with respect to positions in futures or options on futures which do not represent bona fide hedging, the aggregate initial margin and premiums on such positions would exceed 5% of the Fund's net asset value. In addition, neither of the Funds will enter into a futures transaction if it would be obligated to purchase or deliver under outstanding open futures contracts amounts which would exceed 15% of the Fund's total assets.

A Fund will not write a covered call option if, as a result, the aggregate market value of all portfolio securities covering call options or subject to delivery under put options exceeds 15% of the market value of the Fund's total assets.

A Fund will not write a covered put option if, as a result, the aggregate market value of all portfolio securities subject to such put options or covering call options exceeds 15% of the market value of the Fund's total assets.

In order to comply with the laws of certain states, a Fund will not invest more than 5% of its total assets in premiums on put options. Should these state laws change or should a Fund obtain a waiver of their applications, the Fund may invest up to 15% of its total assets in premiums on put options.

In order to comply with the laws of certain states, a Fund will not invest more than 5% of its total assets in premiums on

call options. Should these state laws change or should a Fund obtain a waiver of their applications, the Fund may invest up to 15% of its total assets in premiums on call options.

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In order to comply with the laws of certain states, a Fund will not purchase puts, calls, straddles, spreads and any combination thereof if by reason thereof the value of its aggregate investment in such classes of securities will exceed 5% of its total assets. Should these state laws change or should a Fund obtain a waiver of their application, the Fund may invest a higher percentage of its total assets in puts, calls, straddles, or spreads.

The total amount of a Fund's total assets invested in futures and options under any combination of the policies described in paragraphs 1-6 above will not exceed 15% of the Fund's total assets.

Foreign Currency Transactions

A forward foreign currency exchange contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are principally traded in the interbank market conducted directly between currency traders (usually large, commercial banks) and their customers. A forward contract generally has no deposit requirement, and no commissions are charged at any stage for trades.

The Fund may enter into forward contracts for a variety of purposes in connection with the management of the foreign securities portion of its portfolio. The Fund's use of such contracts would include, but not be limited to, the following:

First, when the Fund enters into a contract for the purchase or sale of a security denominated in a foreign currency, it may desire to "lock in" the U.S. dollar price of the security. By entering into a forward contract for the purchase or sale, for a fixed amount of dollars, of the amount of foreign currency involved in the underlying security transactions, the Fund will be able to protect itself against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and the subject foreign currency during the period between the date the security is purchased or sold and the date on which payment is made or received.

Second, when T. Rowe Price believes that one currency may experience a substantial movement against another currency, including the U.S. dollar, it may enter into a forward contract

to sell or buy the amount of the former foreign currency, approximating the value of some or all of the Fund's portfolio securities denominated in such foreign currency. Alternatively, where appropriate, the Fund may hedge all or part of its foreign currency exposure through the use of a basket of currencies or a

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proxy currency where such currency or currencies act as an effective proxy for other currencies. In such a case, the Fund may enter into a forward contract where the amount of the foreign currency to be sold exceeds the value of the securities denominated in such currency. The use of this basket hedging technique may be more efficient and economical than entering into separate forward contracts for each currency held in the Fund. The precise matching of the forward contract amounts and the value of the securities involved will not generally be possible since the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date the forward contract is entered into and the date it matures. The projection of short-term currency market movement is extremely difficult, and the successful execution of a short-term hedging strategy is highly uncertain. Under normal circumstances, consideration of the prospect for currency parities will be incorporated into the longer term investment decisions made with regard to overall diversification strategies. However, T. Rowe Price believes that it is important to have the flexibility to enter into such forward contracts when it determines that the best interests of the Fund will be served.

Third, the Fund may use forward contracts when the Fund wishes to hedge out of the dollar into a foreign currency in order to create a synthetic bond or money market instrument--the security would be issued in U.S. dollars but the dollar component would be transformed into a foreign currency through a forward contract.

The Fund may enter into forward contracts for any other purpose consistent with the Fund's investment objective and program. However, the Fund will not enter into a forward contract, or maintain exposure to any such contract(s), if the amount of foreign currency required to be delivered thereunder would exceed the Fund's holdings of liquid, high-grade debt securities and currency available for cover of the forward contract(s). In determining the amount to be delivered under a contract, the Fund may net offsetting positions.

At the maturity of a forward contract, the Fund may sell the portfolio security and make delivery of the foreign currency, or it may retain the security and either extend the maturity of the forward contract (by "rolling" that contract forward) or may

initiate a new forward contract.

If the Fund retains the portfolio security and engages in an offsetting transaction, the Fund will incur a gain or a loss (as described below) to the extent that there has been movement in

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forward contract prices. If the Fund engages in an offsetting transaction, it may subsequently enter into a new forward contract to sell the foreign currency. Should forward prices decline during the period between the Fund's entering into a forward contract for the sale of a foreign currency and the date it enters into an offsetting contract for the purchase of the foreign currency, the Fund will realize a gain to the extent the price of the currency it has agreed to sell exceeds the price of the currency it has agreed to purchase. Should forward prices increase, the Fund will suffer a loss to the extent of the price of the currency it has agreed to purchase exceeds the price of the currency it has agreed to sell.

The Fund's dealing in forward foreign currency exchange contracts will generally be limited to the transactions described above. However, the Fund reserves the right to enter into forward foreign currency contracts for different purposes and under different circumstances. Of course, the Fund is not required to enter into forward contracts with regard to its foreign currency-denominated securities and will not do so unless deemed appropriate by T. Rowe Price. It also should be realized that this method of hedging against a decline in the value of a currency does not eliminate fluctuations in the underlying prices of the securities. It simply establishes a rate of exchange at a future date. Additionally, although such contracts tend to minimize the risk of loss due to a decline in the value of the hedged currency, at the same time, they tend to limit any potential gain which might result from an increase in the value of that currency.

Although the Fund values its assets daily in terms of U.S. dollars, it does not intend to convert its holdings of foreign currencies into U.S. dollars on a daily basis. It will do so from time to time, and investors should be aware of the costs of currency conversion. Although foreign exchange dealers do not charge a fee for conversion, they do realize a profit based on the difference (the "spread") between the prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire to resell that currency to the dealer.

Federal Tax Treatment of Options, Futures Contracts and Forward

The Fund may enter into certain option, futures, and forward foreign exchange contracts, including options and futures on currencies, which will be treated as Section 1256 contracts or straddles.

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Transactions which are considered Section 1256 contracts will be considered to have been closed at the end of the Fund's fiscal year and any gains or losses will be recognized for tax purposes at that time. Such gains or losses from the normal closing or settlement of such transactions will be characterized as 60% long-term capital gain or loss and 40% short-term capital gain or loss regardless of the holding period of the instrument. The Fund will be required to distribute net gains on such transactions to shareholders even though it may not have closed the transaction and received cash to pay such distributions.

Options, futures and forward foreign exchange contracts, including options and futures on currencies, which offset a foreign dollar denominated bond or currency position may be considered straddles for tax purposes, in which case a loss on any position in a straddle will be subject to deferral to the extent of unrealized gain in an offsetting position. The holding period of the securities or currencies comprising the straddle will be deemed not to begin until the straddle is terminated. For securities offsetting a purchased put, this adjustment of the holding period may increase the gain from sales of securities held less than three months. The holding period of the security offsetting an "in-the-money qualified covered call" option on an equity security will not include the period of time the option is outstanding.

Losses on written covered calls and purchased puts on securities, excluding certain "qualified covered call" options on equity securities, may be long-term capital loss, if the security covering the option was held for more than twelve months prior to the writing of the option.

In order for the Fund to continue to qualify for federal income tax treatment as a regulated investment company, at least 90% of its gross income for a taxable year must be derived from qualifying income; i.e., dividends, interest, income derived from loans of securities, and gains from the sale of securities or currencies. Pending tax regulations could limit the extent that net gain realized from option, futures or foreign forward exchange contracts on currencies is qualifying income for purposes of the 90% requirement. In addition, gains realized on the sale or other disposition of securities, including option,

futures or foreign forward exchange contracts on securities or securities indexes and, in some cases, currencies, held for less than three months, must be limited to less than 30% of the Fund's annual gross income. In order to avoid realizing excessive gains on securities or currencies held less than three months, the Fund may be required to defer the closing out of option, futures or foreign forward exchange contracts) beyond the time when it would otherwise be advantageous to do so. It is anticipated that unrealized gains on Section 1256 option, futures and foreign

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forward exchange contracts, which have been open for less than three months as of the end of the Fund's fiscal year and which are recognized for tax purposes, will not be considered gains on securities or currencies held less than three months for purposes of the 30% test.

INVESTMENT RESTRICTIONS

Fundamental policies may not be changed without the approval of the lesser of (1) 67% of the Fund's shares present at a meeting of shareholders if the holders of more than 50% of the outstanding shares are present in person or by proxy or (2) more than 50% of the Fund's outstanding shares. Other restrictions in the form of operating policies are subject to change by the Fund's Board of Directors/Trustees without shareholder approval. Any investment restriction which involves a maximum percentage of securities or assets shall not be considered to be violated unless an excess over the percentage occurs immediately after, and is caused by, an acquisition of securities or assets of, or borrowings by, the Fund.

Fundamental Policies

As a matter of fundamental policy, the Fund may not:

- (1) Borrowing. Borrow money except that the Fund may (i) borrow for non-leveraging, temporary or emergency purposes and (ii) engage in reverse repurchase agreements and make other investments or engage in other transactions, which may involve a borrowing, in a manner consistent with the Fund's investment objective and program, provided that the combination of (i) and (ii) shall not exceed 33 1/3% of the value of the Fund's total assets (including the amount borrowed) less liabilities (other than borrowings) or such other percentage permitted by law. Any borrowings which come to exceed this amount will be reduced in accordance with applicable law. The Fund may

borrow from banks, other Price Funds or other persons to the extent permitted by applicable law.

- (2) Commodities. Purchase or sell physical commodities; except that the Fund (other than the Prime Reserve and Treasury Money Funds) may enter into futures contracts and options thereon;
- (3) (a) Industry Concentration (All Funds, except High Yield, New Income, Prime Reserve and Short-Term Bond Funds). Purchase the securities of any

issuer if, as a result, more than 25% of the value of the Fund's total assets would be invested in the securities of issuers having their principal business activities in the same industry;

(b) Industry Concentration (High Yield Fund). Purchase the securities of any issuer if, as a result, more than 25% of the value of the Fund's total assets would be invested in the securities of issuers having their principal business activities in the same industry; provided, however, that the Fund will normally invest more than 25% of its total assets in the securities of the banking industry including, but not limited to, bank certificates of deposit and bankers' acceptances, when the Fund's position in issues maturing in one year or less equals 35% or more of the Fund's total assets;

(c) Industry Concentration (New Income Fund). Purchase the securities of any issuer if, as a result, more than 25% of the value of the Fund's total assets would be invested in the securities of issuers having their principal business activities in the same industry; provided, however, that the Fund will invest more than 25% of its total assets, but not more than 50%, in any one of the gas utility, gas transmission utility, electric utility, telephone utility, and petroleum industries under certain circumstances, and further provided that this limitation does not apply to securities of the banking industry including, but not limited to, certificates of deposit and bankers' acceptances;

(d) Industry Concentration (Prime Reserve Fund). Purchase the securities of any issuer if, as a result, more than 25% of the value of the Fund's

total assets would be invested in the securities of issuers having their principal business activities in the same industry; provided, however, that this limitation does not apply to securities of the banking industry including, but not limited to, certificates of deposit and bankers' acceptances; and

(e) Industry Concentration (Short-Term Bond Fund). Purchase the securities of any issuer if, as a result, more than 25% of the value of the Fund's total assets would be invested in the securities of issuers having their principal business

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activities in the same industry; provided, however, that the Fund will normally invest more than 25% of its total assets in the securities of the banking industry including, but not limited to, bank certificates of deposit and bankers' acceptances when the Fund's position in issues maturing in one year or less equals 35% or more of the Fund's total assets; provided, further, that the Fund will invest more than 25% of its total assets, but not more than 50%, in any one of the gas utility, gas transmission utility, electric utility, telephone utility, and petroleum industries under certain circumstances;

- (4) Loans. Make loans, although the Fund may (i) lend portfolio securities and participate in an interfund lending program with other Price Funds provided that no such loan may be made if, as a result, the aggregate of such loans would exceed 33 1/3% of the value of the Fund's total assets; (ii) purchase money market securities and enter into repurchase agreements; and (iii) acquire publicly-distributed or privately-placed debt securities and purchase debt;
- (5) Percent Limit on Assets Invested in Any One Issuer. Purchase a security if, as a result, with respect to 75% of the value of its total assets, more than 5% of the value of the Fund's total assets would be invested in the securities of a single issuer, except securities issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities;
- (6) Percent Limit on Share Ownership of Any One Issuer. Purchase a security if, as a result, with

respect to 75% of the value of the Fund's total assets, more than 10% of the outstanding voting securities of any issuer would be held by the Fund (other than obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities);

- (7) Real Estate. Purchase or sell real estate unless acquired as a result of ownership of securities or other instruments (but this shall not prevent the Fund from investing in securities or other instruments backed by real estate or securities of companies engaged in the real estate business);

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- (8) Senior Securities. Issue senior securities except in compliance with the Investment Company Act of 1940; or

- (9) Underwriting. Underwrite securities issued by other persons, except to the extent that the Fund may be deemed to be an underwriter within the meaning of the Securities Act of 1933 in connection with the purchase and sale of its portfolio securities in the ordinary course of pursuing its investment program.

NOTES

The following Notes should be read in connection with the above-described fundamental policies. The Notes are not fundamental policies.

With respect to investment restrictions (1) and (4) the Fund will not borrow from or lend to any other T. Rowe Price Fund unless each Fund applies for and receives an exemptive order from the SEC or the SEC issues rules permitting such transactions. The Fund has no current intention of engaging in any such activity and there is no assurance the SEC would grant any order requested by the Fund or promulgate any rules allowing the transactions.

With respect to investment restriction (1), the Prime Reserve and Treasury Money Funds have no current intention of engaging in any borrowing transactions.

With respect to investment restriction (2), the

Fund does not consider currency contracts or hybrid instruments to be commodities.

For purposes of investment restriction (3), U.S., state or local governments, or related agencies or instrumentalities, are not considered an industry. Industries are determined by reference to the classifications of industries set forth in the Fund's Semi-annual and Annual Reports.

For purposes of investment restriction (4), the Fund will consider the acquisition of a debt security to include the execution of a note or other evidence of an extension of credit with a term of more than nine months.

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For purposes of investment restriction (5), the Fund will consider a repurchase agreement fully collateralized with U.S. government securities to be U.S. government securities.

Operating Policies

As a matter of operating policy, the Fund may not:

- (1) Borrowing. The Fund will not purchase additional securities when money borrowed exceeds 5% of its total assets.
- (2) Control of Portfolio Companies. Invest in companies for the purpose of exercising management or control;
- (3)
 - (a) Equity Securities (All Funds, except Personal Strategy, High Yield and New Income Funds). Purchase any common stocks or other equity securities, or securities convertible into equity securities except as set forth in its operating policy on investment companies;
 - (b) Equity Securities (Personal Strategy Funds). Purchase any common stocks or other equity securities, except as set forth in its prospectus and operating policy on investment companies;
 - (c) Equity Securities (High Yield Fund). Invest more than 20% of the Fund's total assets in equity securities (including up to 5% in warrants);

(d) Equity Securities (New Income Fund). Invest more than 25% of its total assets in equity securities;

- (4) Futures Contracts. Purchase a futures contract or an option thereon if, with respect to positions in futures or options on futures which do not represent bona fide hedging, the aggregate initial margin and premiums on such positions would exceed 5% of the Fund's net asset value.
- (5) Illiquid Securities. Purchase illiquid securities if, as a result, more than 15% (10% for the Prime Reserve and Treasury Money Funds) of its net assets would be invested in such securities;
- (6) Investment Companies. Purchase securities of open-end or closed-end investment companies except in compliance with the Investment Company Act of 1940 and applicable state law. Duplicate fees may result from such purchases;
- (7) Margin. Purchase securities on margin, except (i) for use of short-term credit necessary for clearance of purchases of portfolio securities and (ii) it may make margin deposits in connection with futures contracts or other permissible investments;
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- (8) Mortgaging. Mortgage, pledge, hypothecate or, in any manner, transfer any security owned by the Fund as security for indebtedness except as may be necessary in connection with permissible borrowings or investments and then such mortgaging, pledging or hypothecating may not exceed 33 1/3% of the Fund's total assets at the time of borrowing or investment;
- (9) Oil and Gas Programs. Purchase participations or other direct interests or enter into leases with respect to, oil, gas, or other mineral exploration or development programs;
- (10) Options, Etc. Invest in puts, calls, straddles, spreads, or any combination thereof, except to the extent permitted by the prospectus and Statement of Additional Information;
- (11) Ownership of Portfolio Securities by Officers and

Directors. Purchase or retain the securities of any issuer if, to the knowledge of the Fund's management, those officers and directors of the Fund, and of its investment manager, who each own beneficially more than .5% of the outstanding securities of such issuer, together own beneficially more than 5% of such securities.

- (12) (a) Short Sales (All Funds except High Yield Fund). Effect short sales of securities;
- (b) Short Sales (High Yield Fund). Effect short sales of securities, other than as set forth in its prospectus and Statement of Additional Information;
- (13) Unseasoned Issuers. Purchase a security (other than obligations issued or guaranteed by the U.S., any foreign, state or local government, their agencies or instrumentalities) if, as a result, more than 5% of the value of the Fund's total assets would be invested in the securities issuers which at the time of purchase had been in operation for less than three years (for this purpose, the period of operation of any issuer shall include the period of operation of any predecessor or unconditional guarantor of such issuer). This restriction does not apply to securities of pooled investment vehicles or mortgage or asset-backed securities; or

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- (14) Warrants. Invest in warrants if, as a result thereof, more than 2% of the value of the total assets of the Fund would be invested in warrants which are not listed on the New York Stock Exchange, the American Stock Exchange, or a recognized foreign exchange, or more than 5% of the value of the total assets of the Fund would be invested in warrants whether or not so listed. For purposes of these percentage limitations, the warrants will be valued at the lower of cost or market and warrants acquired by the Fund in units or attached to securities may be deemed to be without value.

Personal Strategy Funds

Notwithstanding anything in the above fundamental and operating restrictions to the contrary, the Fund may invest all

of its assets in a single investment company or a series thereof in connection with a "master-feeder" arrangement. Such an investment would be made where the Fund (a "Feeder"), and one or more other Funds with the same investment objective and program as the Fund, sought to accomplish its investment objective and program by investing all of its assets in the shares of another investment company (the "Master"). The Master would, in turn, have the same investment objective and program as the Fund. The Fund would invest in this manner in an effort to achieve the economies of scale associated with having a Master fund make investments in portfolio companies on behalf of a number of Feeder funds.

MANAGEMENT OF FUND

The officers and directors/trustees of the Fund are listed below. Unless otherwise noted, the address of each is 100 East Pratt Street, Baltimore, Maryland 21202. Except as indicated, each has been an employee of T. Rowe Price for more than five years. In the list below, the Fund's directors/trustees who are considered "interested persons" of T. Rowe Price as defined under Section 2(a)(19) of the Investment Company Act of 1940 are noted with an asterisk (*). These directors/trustees are referred to as inside directors by virtue of their officership, directorship, and/or employment with T. Rowe Price.

All Funds

Independent Directors/Trustees

ROBERT P. BLACK, Retired; formerly President, Federal Reserve Bank of Richmond; Address: 10 Dahlgren Road, Richmond, Virginia 23233

CALVIN W. BURNETT, PH.D., President, Coppin State College; Director, Maryland Chamber of Commerce and Provident Bank of Maryland; President, Baltimore Area Council Boy Scouts of America; Vice President, Board of Directors, The Walters Art Gallery; Address: 2000 North Warwick Avenue, Baltimore, Maryland 21216

ANTHONY W. DEERING, Director, President and Chief Operating Officer, The Rouse Company, real estate developers, Columbia, Maryland; Advisory Director, Kleinwort, Benson (North America) Corporation, a registered broker-dealer; Address: 10275 Little Patuxent Parkway, Columbia, Maryland 21044

F. PIERCE LINAWEAVER, President, F. Pierce Linaweaver & Associates, Inc.; formerly (1987-1991) Executive Vice President, EA Engineering, Science, and Technology, Inc., and (1987-1990) President, EA Engineering, Inc., Baltimore, Maryland; Address:

The Legg Mason Tower, 111 South Calvert Street, Suite 2700,
Baltimore, Maryland 21202

JOHN G. SCHREIBER, President, Schreiber Investments, a real
estate investment company; Director and formerly (1/80-12/90)
Executive Vice President, JMB Realty Corporation, a national real
estate investment manager and developer; Address: 1115 East
Illinois Road, Lake Forest, Illinois 60045

ANNE MARIE WHITTEMORE, Partner, law firm of McGuire, Woods,
Battle & Boothe, Richmond, Virginia; formerly, Chairman (1991-
1993) and Director (1989-1993), Federal Reserve Bank of Richmond;
Director, Owens & Minor, Inc., USF&G Corporation, Old Dominion
University, and nominated to the Board of James River
Corporation; Member, Richmond Bar Association and American Bar
Association; Address: One James Center, 901 East Cary Street,
Richmond, Virginia 23219-4030

Officers

HENRY H. HOPKINS, Vice President--Managing Director, T. Rowe
Price; Vice President and Director, T. Rowe Price Investment
Services, Inc., T. Rowe Price Services, Inc., and T. Rowe Price
Trust Company; Vice President, Rowe Price-Fleming International,
Inc. and T. Rowe Price Retirement Plan Services, Inc.

LENORA V. HORNUNG, Secretary--Vice President, T. Rowe Price
CARMEN F. DEYESU, Treasurer--Vice President, T. Rowe Price, T.
Rowe Price Services, Inc., and T. Rowe Price Trust Company

DAVID S. MIDDLETON, Controller--Vice President, T. Rowe Price, T.
Rowe Price Services, Inc., and T. Rowe Price Trust Company

ROGER L. FIERY, III, Assistant Vice President--Vice President,
Rowe Price-Fleming International, Inc.

EDWARD T. SCHNEIDER, Assistant Vice President--Vice President, T.
Rowe Price Services, Inc.

INGRID I. VORDEMBERGE, Assistant Vice President--Employee, T.
Rowe Price

Adjustable Rate Fund

*GEORGE J. COLLINS, Chairman of the Board--President, Managing
Director, and Chief Executive Officer, T. Rowe Price; Director,
Rowe Price-Fleming International, Inc., T. Rowe Price Trust
Company and T. Rowe Price Retirement Plan Services, Inc.,
Chartered Investment Counselor

*PETER VAN DYKE, President and Director--Managing Director, T.
Rowe Price; Vice President of Rowe Price-Fleming International,
Inc. and T. Rowe Price Trust Company

*JAMES S. RIEPE, Vice President and Director--Managing Director,
T. Rowe Price; Chairman of the Board, T. Rowe Price Services,
Inc., T. Rowe Price Retirement Plan Services, Inc., and T. Rowe
Price Trust Company; President and Director, T. Rowe Price
Investment Services, Inc; Director, Rhone-Poulenc Rorer, Inc.

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HEATHER R. LANDON, Executive Vice President--Vice President, T. Rowe Price and T. Rowe Price Trust Company

MICHAEL J. CONELIUS, Vice President--Assistant Vice President, T. Rowe Price

VEENA A. KUTLER, Vice President--Vice President, T. Rowe Price and Rowe Price-Fleming International, Inc.

JAMES M. MCDONALD, Vice President--Vice President, T. Rowe Price

EDMUND M. NOTZON, Vice President--Vice President, T. Rowe Price and T. Rowe Price Trust Company; formerly, (1972-1989) charter member of the U.S. Senior Executive Services and Director, Analysis and Evaluation Division in the Office of Water Regulations and Standards of the U.S. Environmental Protection Agency

CHARLES P. SMITH, Vice President--Managing Director, T. Rowe Price; Vice President, Rowe Price-Fleming International, Inc.

GNMA Fund

*GEORGE J. COLLINS, Chairman of the Board--President, Managing Director and Chief Executive Officer, T. Rowe Price; Director, Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc.; Chartered Investment Counselor

*JAMES S. RIEPE, Vice President and Trustee--Managing Director, T. Rowe Price; Chairman of the Board, T. Rowe Price Services, Inc., T. Rowe Price Retirement Plan Services, Inc., and T. Rowe Price Trust Company; President and Director, T. Rowe Price Investment Services, Inc.; Director, Rhone-Poulenc Rorer, Inc.

PETER VAN DYKE, President--Managing Director, T. Rowe Price; Vice President, Rowe Price-Fleming International, Inc. and T. Rowe Price Trust Company

ROBERT P. CAMPBELL, Vice President--Vice President, T. Rowe Price and Rowe Price-Fleming International, Inc.; formerly (4/80-5/90) Vice President and Director, Private Finance, New York Life Insurance Company, New York, New York

VEENA A. KUTLER, Vice President--Vice President, T. Rowe Price and Rowe Price-Fleming International, Inc.

HEATHER R. LANDON, Vice President--Vice President, T. Rowe Price and T. Rowe Price Trust Company

JAMES M. MCDONALD, Vice President--Vice President, T. Rowe Price

EDMUND M. NOTZON, Vice President--Vice President, T. Rowe Price and T. Rowe Price Trust Company; formerly (1972-1989) charter member of the U.S. Senior Executive Service and Director, Analysis and Evaluation Division in the Office of Water Regulations and Standards of the U.S. Environmental Protection Agency

CHARLES P. SMITH, Vice President--Managing Director, T. Rowe Price; Vice President, Rowe Price-Fleming International, Inc.

High Yield Fund

*GEORGE J. COLLINS, Chairman of the Board--President, Managing Director, and Chief Executive Officer, T. Rowe Price; Director, Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc., Chartered Investment Counselor

*RICHARD S. SWINGLE, President and Director--Managing Director, T. Rowe Price

*JAMES S. RIEPE, Vice President and Director--Managing Director, T. Rowe Price; Chairman of the Board, T. Rowe Price Services, Inc., T. Rowe Price Retirement Plan Services, Inc., and T. Rowe Price Trust Company; President and Director, T. Rowe Price Investment Services, Inc; Director, Rhone-Poulenc Rorer, Inc.

CATHERINE B. BRAY, Vice President--Vice President, T. Rowe Price; formerly (7/87-3/89) Fixed Income Analyst, Salomon Brothers, New York, New York

ANDREW M. BROOKS, Vice President--Vice President, T. Rowe Price

HUBERT M. STILES, JR., Vice President--Vice President, T. Rowe Price

JAY W. VAN ERT, Vice President--Vice President, T. Rowe Price; formerly (7/86-5/89) High Yield Credit Analyst, United Savings Bank of Texas, Houston, Texas

MARK J. VASELKIV, Vice President--Vice President, T. Rowe Price

THEA N. WILLIAMS, Vice President--Assistant Vice President, T. Rowe Price

MICHAEL J. CONELIUS, Assistant Vice President--Assistant Vice President, T. Rowe Price

JAMES M. McDONALD, Assistant Vice President--Vice President, T. Rowe Price

New Income Fund

*GEORGE J. COLLINS, Chairman of the Board--President, Managing Director, and Chief Executive Officer, T. Rowe Price; Director, Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc., Chartered Investment Counselor

*CARTER O. HOFFMAN, Vice President and Director--Managing Director, T. Rowe Price; Chartered Investment Counselor

*JAMES S. RIEPE, Vice President and Director--Managing Director, T. Rowe Price; Chairman of the Board, T. Rowe Price Services, Inc., T. Rowe Price Retirement Plan Services, Inc., and T. Rowe Price Trust Company; President and Director, T. Rowe Price Investment Services, Inc; Director, Rhone-Poulenc Rorer, Inc.

*CHARLES P. SMITH, President and Director--Managing Director, T. Rowe Price; Vice President, Rowe Price-Fleming International, Inc.

ROBERT P. CAMPBELL, Vice President--Vice President, T. Rowe Price and Rowe Price Fleming International, Inc.; formerly (4/80-5/90)

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Vice President and Director, Private Finance, New York Life Insurance Company, New York, New York

HEATHER R. LANDON, Vice President--Vice President, T. Rowe Price and T. Rowe Price Trust Company

JAMES M. McDONALD, Vice President--Vice President, T. Rowe Price

EDMUND M. NOTZON, Vice President--Vice President, T. Rowe Price and T. Rowe Price Trust Company; formerly (1972-1989) charter member of the U.S. Senior Executive Service and Director, Analysis and Evaluation Division in the Office of Water Regulations and Standards of the U.S. Environmental Protection Agency

JOAN R. POTE, Vice President--Vice President, T. Rowe Price

ROBERT M. RUBINO, Vice President--Vice President, T. Rowe Price

PETER VAN DYKE, Vice President--Managing Director, T. Rowe Price; Vice President, Rowe Price-Fleming International, Inc. and T. Rowe Price Trust Company

Prime Reserve Fund

*GEORGE J. COLLINS, Vice President and Director--President, Managing Director, and Chief Executive Officer, T. Rowe Price; Director, Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc., Chartered Investment Counselor

*CARTER O. HOFFMAN, Chairman of the Board--Managing Director, T. Rowe Price; Chartered Investment Counselor

EDWARD A. WIESE, President--Vice President, T. Rowe Price, Rowe Price-Fleming International, Inc. and T. Rowe Price Trust Company

ROBERT P. CAMPBELL, Executive Vice President--Vice President, T. Rowe Price and Rowe Price-Fleming International Inc.; formerly (4/80-5/90) Vice President and Director, Private Finance, New York Life Insurance Company, New York, New York

JAMES M. MCDONALD, Executive Vice President--Vice President, T. Rowe Price

PATRICE L. BERCHTENBREITER, Vice President--Vice President, T. Rowe Price

PAUL W. BOLTZ, Vice President--Vice President and Financial Economist of T. Rowe Price

MICHAEL J. CONELIUS, Vice President--Assistant Vice President, T. Rowe Price

JOAN R. POTE, Vice President--Vice President, T. Rowe Price

JAMES S. RIEPE, Vice President and Director--Managing Director, T. Rowe Price; Chairman of the Board, T. Rowe Price Services, Inc., T. Rowe Price Retirement Plan Services, Inc., and T. Rowe Price Trust Company; President and Director, T. Rowe Price Investment Services, Inc; Director, Rhone-Poulenc Rorer, Inc.

ROBERT M. RUBINO, Vice President--Vice President, T. Rowe Price

Short-Term Bond Fund

*GEORGE J. COLLINS, Chairman of the Board--President, Managing Director, and Chief Executive Officer, T. Rowe Price; Director, Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc., Chartered Investment Counselor

*JAMES S. RIEPE, Vice President and Director--Managing Director, T. Rowe Price; Chairman of the Board, T. Rowe Price Services, Inc., T. Rowe Price Retirement Plan Services, Inc., and T. Rowe Price Trust Company; President and Director, T. Rowe Price Investment Services, Inc; Director, Rhone-Poulenc Rorer, Inc.

VEENA A. KUTLER, President--Vice President, T. Rowe Price and Rowe Price-Fleming International, Inc.

ROBERT P. CAMPBELL, Vice President--Vice President, T. Rowe Price and Rowe Price-Fleming International, Inc.; formerly (4/80-5/90) Vice President and Director, Private Finance, New York Life Insurance Company, New York, New York

CHRISTY M. DIPIETRO, Vice President--Vice President, T. Rowe Price and T. Rowe Price Trust Company

JAMES M. MCDONALD, Vice President--Vice President, T. Rowe Price

ROBERT M. RUBINO, Vice President--Vice President, T. Rowe Price

CHARLES P. SMITH, Vice President--Managing Director, T. Rowe Price; Vice President, Rowe Price-Fleming International, Inc.

EDWARD A. WIESE, Vice President--Vice President, T. Rowe Price, Rowe Price-Fleming International, Inc. and T. Rowe Price Trust Company

Intermediate, Long-Term and Money Funds

*GEORGE J. COLLINS, President and Director--President, Managing Director, and Chief Executive Officer, T. Rowe Price; Director, Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc., Chartered Investment Counselor

*JAMES S. RIEPE, Vice President and Director--Managing Director, T. Rowe Price; Chairman of the Board, T. Rowe Price Services, Inc., T. Rowe Price Retirement Plan Services, Inc., and T. Rowe Price Trust Company; President and Director, T. Rowe Price Investment Services, Inc; Director, Rhone-Poulenc Rorer, Inc.

*CHARLES P. SMITH, Executive Vice President and Director--Managing Director, T. Rowe Price; Vice President, Rowe Price-Fleming International, Inc.

*PETER VAN DYKE, Executive Vice President and Director--Managing Director, T. Rowe Price; Vice President, Rowe Price-Fleming International, Inc. and T. Rowe Price Trust Company

EDWARD A. WIESE, Executive Vice President--Vice President, T. Rowe Price, Rowe Price-Fleming International, Inc. and T. Rowe Price Trust Company

PAUL W. BOLTZ, Vice President--Vice President and Financial

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ROBERT P. CAMPBELL, Vice President--Vice President, T. Rowe Price and Rowe Price-Fleming International Inc.; formerly (4/80-5/90) Vice President and Director, Private Finance, New York Life Insurance Company, New York, New York

VEENA A. KUTLER, Vice President--Vice President, T. Rowe Price and Rowe Price-Fleming International, Inc.

HEATHER R. LANDON, Vice President--Vice President, T. Rowe Price and T. Rowe Price Trust Company

JAMES M. McDONALD, Vice President--Vice President, T. Rowe Price

JOAN R. POTEE, Vice President--Vice President, T. Rowe Price

Personal Strategy Fund

The Fund's Executive Committee, consisting of the Fund's interested directors/trustees, has been authorized by its respective Board of Directors/Trustees to exercise all powers of the Board to manage the Fund in the intervals between meetings of the Board, except the powers prohibited by statute from being delegated.

PRINCIPAL HOLDERS OF SECURITIES

As of the date of the prospectus, the officers and directors of the Fund, as a group, owned less than 1% of the outstanding shares of the Fund.

As of February 28, 1994, Yachtcrew & Co., FBO Spectrum Income Account, State Street Bank and Trust Co., 1776 Heritage Drive-4W, North Quincy, MA 02171-2010 beneficially owned more than 5% of the outstanding shares of the GNMA, High Yield, New Income and Short-Term Bonds Funds, and T. Rowe Price Trust Co. Inc., Attn: Installation Team for Conversion Assets, New England Electric Plan, 25 Research Drive, Westborough, MA 01582 beneficially owned more than 5% of then outstanding shares of the Money Fund.

INVESTMENT MANAGEMENT SERVICES

Services

Under the Management Agreement, T. Rowe Price provides the Fund with discretionary investment services. Specifically, T. Rowe Price is responsible for supervising and directing the investments of the Fund in accordance with the Fund's investment objectives, program, and restrictions as provided in its prospectus and this Statement of Additional Information. T. Rowe

Price is also responsible for effecting all security transactions on behalf of the Fund, including the negotiation of commissions and the allocation of principal business and portfolio brokerage. In addition to these services, T. Rowe Price provides the Fund with certain corporate administrative services, including:

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maintaining the Fund's corporate existence and corporate records; registering and qualifying Fund shares under federal and state laws; monitoring the financial, accounting, and administrative functions of the Fund; maintaining liaison with the agents employed by the Fund such as the Fund's custodian and transfer agent; assisting the Fund in the coordination of such agents' activities; and permitting T. Rowe Price's employees to serve as officers, directors, and committee members of the Fund without cost to the Fund.

The Management Agreement also provides that T. Rowe Price, its directors, officers, employees, and certain other persons performing specific functions for the Fund will only be liable to the Fund for losses resulting from willful misfeasance, bad faith, gross negligence, or reckless disregard of duty.

Management Fee

The Fund pays T. Rowe Price a fee ("Fee") which consists of two components: a Group Management Fee ("Group Fee") and an Individual Fund Fee ("Fund Fee"). The Fee is paid monthly to T. Rowe Price on the first business day of the next succeeding calendar month and is calculated as described below.

The monthly Group Fee ("Monthly Group Fee") is the sum of the daily Group Fee accruals ("Daily Group Fee Accruals") for each month. The Daily Group Fee Accrual for any particular day is computed by multiplying the Price Funds' group fee accrual as determined below ("Daily Price Funds' Group Fee Accrual") by the ratio of the Fund's net assets for that day to the sum of the aggregate net assets of the Price Funds for that day. The Daily Price Funds' Group Fee Accrual for any particular day is calculated by multiplying the fraction of one (1) over the number of calendar days in the year by the annualized Daily Price Funds' Group Fee Accrual for that day as determined in accordance with the following schedule:

Price Funds'	
Annual Group Base Fee	
Rate for Each Level of Assets	
0.480%	First \$1 billion
0.450%	Next \$1 billion
0.420%	Next \$1 billion
0.390%	Next \$1 billion

0.370%	Next \$1 billion
0.360%	Next \$2 billion
0.350%	Next \$2 billion
0.340%	Next \$5 billion
0.330%	Next \$10 billion
0.320%	Next \$10 billion
0.310%	Thereafter

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For the purpose of calculating the Group Fee, the Price Funds include all the mutual funds distributed by T. Rowe Price Investment Services, Inc., (excluding T. Rowe Price Spectrum Fund, Inc. and any institutional or private label mutual funds). For the purpose of calculating the Daily Price Funds' Group Fee Accrual for any particular day, the net assets of each Price Fund are determined in accordance with the Fund's prospectus as of the close of business on the previous business day on which the Fund was open for business.

The monthly Fund Fee ("Monthly Fund Fee") is the sum of the daily Fund Fee accruals ("Daily Fund Fee Accruals") for each month. The Daily Fund Fee Accrual for any particular day is computed by multiplying the fraction of one (1) over the number of calendar days in the year by the individual Fund Fee Rate and multiplying this product by the net assets of the Fund for that day, as determined in accordance with the Fund's prospectus as of the close of business on the previous business day on which the Fund was open for business. The individual fund fees for each Fund are listed in the chart below:

Individual Fund Fees

Adjustable Rate Fund	0.10%
GNMA Fund	0.15%
High Yield Fund	0.30%
New Income Fund	0.15%
Prime Reserve Fund	0.05%
Short-Term Bond Fund	0.10%
Intermediate Fund	0.05%
Long-Term Fund	0.05%
Money Fund	0.00%
Personal Strategy Fund	0. ___%

The following chart sets forth the total management fees, if any, paid to T. Rowe Price by each Fund, during the last three years:

Fund	1994	1993	1992
Adjustable Rate	\$ 526,000	\$ 627,000	*
GNMA	4,626,000	4,102,000	\$ 3,069,000

High Yield	10,554,000	8,014,000	5,701,000
New Income	7,750,000	7,113,000	6,348,000
Prime Reserve	13,617,000	15,620,000	18,486,000
Short-Term Bond	2,873,000	2,136,000	1,398,000
Intermediate	755,000	571,000	309,000
Long-Term	180,000	125,000	4,000
Money	2,084,000	165,000	2,140,000

* Due to the Fund's expense limitation in effect at that time, no management fee was paid by the Fund to T. Rowe Price.

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Limitation on Fund Expenses

The Management Agreement between the Fund and T. Rowe Price provides that the Fund will bear all expenses of its operations not specifically assumed by T. Rowe Price. However, in compliance with certain state regulations, T. Rowe Price will reimburse the Fund for certain expenses which in any year exceed the limits prescribed by any state in which the Fund's shares are qualified for sale. Presently, the most restrictive expense ratio limitation imposed by any state is 2.5% of the first \$30 million of the Fund's average daily net assets, 2% of the next \$70 million of the Fund's assets, and 1.5% of net assets in excess of \$100 million. Reimbursement by the Fund to T. Rowe Price of any expenses paid or assumed under a state expense limitation may not be made more than two years after the end of the fiscal year in which the expenses were paid or assumed.

The following chart sets forth expense ratio limitations and the periods for which they are effective. For each, T. Rowe Price has agreed to bear any Fund expenses which would cause the Fund's ratio of expenses to average net assets to exceed the indicated percentage limitations. The expenses borne by T. Rowe Price are subject to reimbursement by the Fund through the indicated reimbursement date, provided no reimbursement will be made if it would result in the Fund's expense ratio exceeding its applicable limitation.

Fund	Limitation Period	Expense Ratio Limitation	Reimbursement Date
Adjustable Rate+	January 1, 1994- May 31, 1996	0.70%	May 31, 1998
Intermediate++	March 1, 1993- February 28, 1995	0.80%	February 28, 1997
Long-Term++	March 1, 1993- February 28, 1995	0.80%	February 28, 1997

- + The Adjustable Rate Fund previously operated under a 0.40% limitation that expired December 31, 1993. The reimbursement period for this limitation extends through June 30, 1995.
- ++ The Intermediate and Long-Term Funds' operated under a 0.80% limitation that expired February 29, 1993. The reimbursement period for this limitation extends through February 28, 1995.

Each of the above-referenced Fund's Management Agreement also provides that one or more additional expense limitation periods (of the same or different time periods) may be implemented after the expiration of the current expense limitation, and that with

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respect to any such additional limitation period, the Fund may reimburse T. Rowe Price, provided the reimbursement does not result in the Fund's aggregate expenses exceeding the additional expense limitation.

Pursuant to the Adjustable Rate Fund's current expense limitation, \$938,000 of management fees were not accrued by the Fund for the year ended February 28, 1994.

Pursuant to the Intermediate Fund's current expense limitation, \$77,000 of unaccrued 1993 fees for the Fund, representing the entire unaccrued balance, were reimbursed to T. Rowe Price during the year ended February 28, 1994.

Pursuant to the Long-Term Fund's current expense limitation, \$61,000 of management fees were not accrued by the Fund for the year ended February 28, 1994. Additionally, \$303,000 of unaccrued fees from the prior period for the Fund was subject to reimbursement through February 28, 1995.

GNMA, High Yield, New Income, Prime Reserve and Short-Term Bond Funds

T. Rowe Price Spectrum Fund, Inc.

The Fund is a party to a Special Servicing Agreement ("Agreement") between and among T. Rowe Price Spectrum Fund, Inc. ("Spectrum Fund"), T. Rowe Price, T. Rowe Price Services, Inc. and various other T. Rowe Price funds which, along with the Fund, are funds in which Spectrum Fund invests (collectively all such funds "Underlying Price Funds").

The Agreement provides that, if the Board of Directors/Trustees of any Underlying Price Fund determines that such Underlying Fund's share of the aggregate expenses of

Spectrum Fund is less than the estimated savings to the Underlying Price Fund from the operation of Spectrum Fund, the Underlying Price Fund will bear those expenses in proportion to the average daily value of its shares owned by Spectrum Fund, provided further that no Underlying Price Fund will bear such expenses in excess of the estimated savings to it. Such savings are expected to result primarily from the elimination of numerous separate shareholder accounts which are or would have been invested directly in the Underlying Price Funds and the resulting reduction in shareholder servicing costs. Although such cost savings are not certain, the estimated savings to the Underlying Price Funds generated by the operation of Spectrum Fund are expected to be sufficient to offset most, if not all, of the expenses incurred by Spectrum Fund.

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All Funds

DISTRIBUTOR FOR FUND

T. Rowe Price Investment Services, Inc. ("Investment Services"), a Maryland corporation formed in 1980 as a wholly-owned subsidiary of T. Rowe Price, serves as the Fund's distributor. Investment Services is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. The offering of the Fund's shares is continuous.

Investment Services is located at the same address as the Fund and T. Rowe Price -- 100 East Pratt Street, Baltimore, Maryland 21202.

Investment Services serves as distributor to the Fund pursuant to an Underwriting Agreement ("Underwriting Agreement"), which provides that the Fund will pay all fees and expenses in connection with: registering and qualifying its shares under the various state "blue sky" laws; preparing, setting in type, printing, and mailing its prospectuses and reports to shareholders; and issuing its shares, including expenses of confirming purchase orders.

The Underwriting Agreement provides that Investment Services will pay all fees and expenses in connection with: printing and distributing prospectuses and reports for use in offering and selling Fund shares; preparing, setting in type, printing, and mailing all sales literature and advertising; Investment Services' federal and state registrations as a broker-dealer; and offering and selling Fund shares, except for those fees and expenses specifically assumed by the Fund. Investment Services' expenses are paid by T. Rowe Price.

Investment Services acts as the agent of the Fund in connection with the sale of its shares in all states in which the shares are qualified and in which Investment Services is qualified as a broker-dealer. Under the Underwriting Agreement, Investment Services accepts orders for Fund shares at net asset value. No sales charges are paid by investors or the Fund.

CUSTODIAN

State Street Bank and Trust Company is the custodian for the Fund's domestic securities and cash, but it does not participate in the Fund's investment decisions. Portfolio securities purchased in the U.S. are maintained in the custody of the Bank and may be entered into the Federal Reserve Book Entry System, or the security depository system of the Depository Trust

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Corporation. The Fund (other than the GNMA, Prime Reserve and U.S. Treasury Intermediate, Long-Term and Money Funds) has entered into a Custodian Agreement with The Chase Manhattan Bank, N.A., London, pursuant to which portfolio securities which are purchased outside the United States are maintained in the custody of various foreign branches of The Chase Manhattan Bank and such other custodians, including foreign banks and foreign securities depositories as are approved by the Fund's Board of Directors/Trustees in accordance with regulations under the Investment Company Act of 1940. The Bank's main office is at 225 Franklin Street, Boston, Massachusetts 02110. The address for The Chase Manhattan Bank, N.A., London is Woolgate House, Coleman Street, London, EC2P 2HD, England.

PORTFOLIO TRANSACTIONS

Investment or Brokerage Discretion

Decisions with respect to the purchase and sale of portfolio securities on behalf of the Fund are made by T. Rowe Price. T. Rowe Price is also responsible for implementing these decisions, including the negotiation of commissions and the allocation of portfolio brokerage and principal business. The Fund's purchases and sales of fixed-income portfolio securities are normally done on a principal basis and do not involve the payment of a commission although they may involve the designation of selling concessions. That part of the discussion below relating solely to brokerage commissions would not normally apply to the Fund (except to the extent it purchases equity securities (New Income, High Yield and Personal Strategy Funds only)). However, it is included because T. Rowe Price does manage a significant number of common stock portfolios which do engage in

agency transactions and pay commissions and because some research and services resulting from the payment of such commissions may benefit the Fund.

How Brokers and Dealers are Selected

Equity Securities

In purchasing and selling the Fund's portfolio securities, it is T. Rowe Price's policy to obtain quality execution at the most favorable prices through responsible brokers and dealers and, in the case of agency transactions, at competitive commission rates. However, under certain conditions, the Fund may pay higher brokerage commissions in return for brokerage and research services. As a general practice, over-the-counter orders are executed with market-makers. In selecting among market-makers, T. Rowe Price generally seeks to select those it believes to be actively and effectively trading the security being purchased or sold. In selecting broker-dealers to execute the Fund's

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portfolio transactions, consideration is given to such factors as the price of the security, the rate of the commission, the size and difficulty of the order, the reliability, integrity, financial condition, general execution and operational capabilities of competing brokers and dealers, and brokerage and research services provided by them. It is not the policy of T. Rowe Price to seek the lowest available commission rate where it is believed that a broker or dealer charging a higher commission rate would offer greater reliability or provide better price or execution.

Fixed Income Securities

Fixed income securities are generally purchased from the issuer or a primary market-maker acting as principal for the securities on a net basis, with no brokerage commission being paid by the client although the price usually includes an undisclosed compensation. Transactions placed through dealers serving as primary market-makers reflect the spread between the bid and asked prices. Securities may also be purchased from underwriters at prices which include underwriting fees.

With respect to equity and fixed income securities, T. Rowe Price may effect principal transactions on behalf of the Fund with a broker or dealer who furnishes brokerage and/or research services, designate any such broker or dealer to receive selling concessions, discounts or other allowances, or otherwise deal with any such broker or dealer in connection with the acquisition of securities in underwritings. T. Rowe Price may receive research services in connection with brokerage transactions,

including designations in fixed price offerings.

How Evaluations are Made of the Overall Reasonableness of Brokerage Commissions Paid

On a continuing basis, T. Rowe Price seeks to determine what levels of commission rates are reasonable in the marketplace for transactions executed on behalf of the Fund. In evaluating the reasonableness of commission rates, T. Rowe Price considers: (a) historical commission rates, both before and since rates have been fully negotiable; (b) rates which other institutional investors are paying, based on available public information; (c) rates quoted by brokers and dealers; (d) the size of a particular transaction, in terms of the number of shares, dollar amount, and number of clients involved; (e) the complexity of a particular transaction in terms of both execution and settlement; (f) the level and type of business done with a particular firm over a period of time; and (g) the extent to which the broker or dealer has capital at risk in the transaction.

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Description of Research Services Received from Brokers and Dealers

T. Rowe Price receives a wide range of research services from brokers and dealers. These services include information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and analysis of corporate responsibility issues. These services provide both domestic and international perspective. Research services are received primarily in the form of written reports, computer generated services, telephone contacts and personal meetings with security analysts. In addition, such services may be provided in the form of meetings arranged with corporate and industry spokespersons, economists, academicians and government representatives. In some cases, research services are generated by third parties but are provided to T. Rowe Price by or through broker-dealers.

Research services received from brokers and dealers are supplemental to T. Rowe Price's own research effort and, when utilized, are subject to internal analysis before being incorporated by T. Rowe Price into its investment process. As a practical matter, it would not be possible for T. Rowe Price's Equity Research Division to generate all of the information presently provided by brokers and dealers. T. Rowe Price pays cash for certain research services received from external

sources. T. Rowe Price also allocates brokerage for research services which are available for cash. While receipt of research services from brokerage firms has not reduced T. Rowe Price's normal research activities, the expenses of T. Rowe Price could be materially increased if it attempted to generate such additional information through its own staff. To the extent that research services of value are provided by brokers or dealers, T. Rowe Price may be relieved of expenses which it might otherwise bear.

T. Rowe Price has a policy of not allocating brokerage business in return for products or services other than brokerage or research services. In accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934, T. Rowe Price may from time to time receive services and products which serve both research and non-research functions. In such event, T. Rowe Price makes a good faith determination of the anticipated research and non-research use of the product or service and allocates brokerage only with respect to the research component.

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Commissions to Brokers who Furnish Research Services

Certain brokers and dealers who provide quality brokerage and execution services also furnish research services to T. Rowe Price. With regard to the payment of brokerage commissions, T. Rowe Price has adopted a brokerage allocation policy embodying the concepts of Section 28(e) of the Securities Exchange Act of 1934, which permits an investment adviser to cause an account to pay commission rates in excess of those another broker or dealer would have charged for effecting the same transaction, if the adviser determines in good faith that the commission paid is reasonable in relation to the value of the brokerage and research services provided. The determination may be viewed in terms of either the particular transaction involved or the overall responsibilities of the adviser with respect to the accounts over which it exercises investment discretion. Accordingly, while T. Rowe Price cannot readily determine the extent to which commission rates or net prices charged by broker-dealers reflect the value of their research services, T. Rowe Price would expect to assess the reasonableness of commissions in light of the total brokerage and research services provided by each particular broker. T. Rowe Price may receive research, as defined in Section 28(e), in connection with selling concessions and designations in fixed price offerings in which the Funds participate.

Internal Allocation Procedures

T. Rowe Price has a policy of not precommitting a specific amount of business to any broker or dealer over any specific time

period. Historically, the majority of brokerage placement has been determined by the needs of a specific transaction such as market-making, availability of a buyer or seller of a particular security, or specialized execution skills. However, T. Rowe Price does have an internal brokerage allocation procedure for that portion of its discretionary client brokerage business where special needs do not exist, or where the business may be allocated among several brokers or dealers which are able to meet the needs of the transaction.

Each year, T. Rowe Price assesses the contribution of the brokerage and research services provided by brokers or dealers, and attempts to allocate a portion of its brokerage business in response to these assessments. Research analysts, counselors, various investment committees, and the Trading Department each seek to evaluate the brokerage and research services they receive from brokers or dealers and make judgments as to the level of business which would recognize such services. In addition, brokers or dealers sometimes suggest a level of business they would like to receive in return for the various brokerage and

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research services they provide. Actual brokerage received by any firm may be less than the suggested allocations but can, and often does, exceed the suggestions, because the total business is allocated on the basis of all the considerations described above. In no case is a broker or dealer excluded from receiving business from T. Rowe Price because it has not been identified as providing research services.

Miscellaneous

T. Rowe Price's brokerage allocation policy is consistently applied to all its fully discretionary accounts, which represent a substantial majority of all assets under management. Research services furnished by brokers or dealers through which T. Rowe Price effects securities transactions may be used in servicing all accounts (including non-Fund accounts) managed by T. Rowe Price. Conversely, research services received from brokers or dealers which execute transactions for the Fund are not necessarily used by T. Rowe Price exclusively in connection with the management of the Fund.

From time to time, orders for clients may be placed through a computerized transaction network.

The Fund does not allocate business to any broker-dealer on the basis of its sales of the Fund's shares. However, this does not mean that broker-dealers who purchase Fund shares for their clients will not receive business from the Fund.

Some of T. Rowe Price's other clients have investment objectives and programs similar to those of the Fund. T. Rowe Price may occasionally make recommendations to other clients which result in their purchasing or selling securities simultaneously with the Fund. As a result, the demand for securities being purchased or the supply of securities being sold may increase, and this could have an adverse effect on the price of those securities. It is T. Rowe Price's policy not to favor one client over another in making recommendations or in placing orders. T. Rowe Price frequently follows the practice of grouping orders of various clients for execution which generally results in lower commission rates being attained. In certain cases, where the aggregate order is executed in a series of transactions at various prices on a given day, each participating client's proportionate share of such order reflects the average price paid or received with respect to the total order. T. Rowe Price has established a general investment policy that it will ordinarily not make additional purchases of a common stock of a company for its clients (including the T. Rowe Price Funds) if, as a result of such purchases, 10% or more of the outstanding common stock of such company would be held by its clients in the aggregate.

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To the extent possible, T. Rowe Price intends to recapture solicitation fees paid in connection with tender offers through T. Rowe Price Investment Services, Inc., the Fund's distributor. At the present time, T. Rowe Price does not recapture commissions or underwriting discounts or selling group concessions in connection with taxable securities acquired in underwritten offerings. T. Rowe Price does, however, attempt to negotiate elimination of all or a portion of the selling-group concession or underwriting discount when purchasing tax-exempt municipal securities on behalf of its clients in underwritten offerings.

Adjustable Rate, High Yield, New Income, Short-Term Bond, and Personal Strategy Funds

Transactions with Related Brokers and Dealers

As provided in the Investment Management Agreement between the Fund and T. Rowe Price, T. Rowe Price is responsible not only for making decisions with respect to the purchase and sale of the Fund's portfolio securities, but also for implementing these decisions, including the negotiation of commissions and the allocation of portfolio brokerage and principal business. It is expected that T. Rowe Price may place orders for the Fund's portfolio transactions with broker-dealers through the same trading desk T. Rowe Price uses for portfolio transactions in domestic securities. The trading desk accesses brokers and dealers in various markets in which the Fund's foreign securities

are located. These brokers and dealers may include certain affiliates of Robert Fleming Holdings Limited ("Robert Fleming Holdings") and Jardine Fleming Group Limited ("JFG"), persons indirectly related to T. Rowe Price. Robert Fleming Holdings, through Copthall Overseas Limited, a wholly-owned subsidiary, owns 25% of the common stock of Rowe Price-Fleming International, Inc. ("RPFI"), an investment adviser registered under the Investment Advisers Act of 1940. Fifty percent of the common stock of RPFI is owned by TRP Finance, Inc., a wholly-owned subsidiary of T. Rowe Price, and the remaining 25% is owned by Jardine Fleming Holdings Limited, a subsidiary of JFG. JFG is 50% owned by Robert Fleming Holdings and 50% owned by Jardine Matheson Holdings Limited. Orders for the Fund's portfolio transactions placed with affiliates of Robert Fleming Holdings and JFG will result in commissions being received by such affiliates.

The Board of Directors/Trustees of the Fund has authorized T. Rowe Price to utilize certain affiliates of Robert Fleming and JFG in the capacity of broker in connection with the execution of the Fund's portfolio transactions. These affiliates include, but are not limited to, Jardine Fleming Securities Limited ("JFS"), a wholly-owned subsidiary of JFG, Robert Fleming & Co. Limited ("RF&Co."), Jardine Fleming Australia Securities Limited, and Robert Fleming, Inc. (a New York brokerage firm). Other

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affiliates of Robert Fleming Holding and JFG also may be used. Although it does not believe that the Fund's use of these brokers would be subject to Section 17(e) of the Investment Company Act of 1940, the Board of Directors/Trustees of the Fund has agreed that the procedures set forth in Rule 17e-1 under that Act will be followed when using such brokers.

Other

The Funds engaged in portfolio transactions involving broker-dealers in the following amounts for the fiscal years ended February 28, 1994, February 28, 1993 and February 29, 1992:

Fund	1994	1993	1992
_____	_____	_____	_____
Adjustable Rate	\$ 793,565,000	\$ 1,876,498,000	\$ 427,475,000
GNMA	2,306,951,000	1,528,454,000	1,438,762,000
High Yield	18,554,222,000	16,168,606,000	6,702,967,000
New Income	20,265,475,000	15,193,999,000	6,648,064,000
Prime Reserve	29,024,172,000	36,478,989,000	29,975,769,000
Short-Term Bond	4,266,837,000	5,805,958,000	5,534,535,000
Intermediate	81,970,000	91,923,000	218,317,000
Long-Term	142,513,000	192,941,000	192,774,000

Money 3,449,951,000 2,804,196,000 23,290,378,000

The entire amount for each of these years represented principal transactions as to which the Adjustable Rate, GNMA, Prime Reserve, U.S. Treasury Intermediate, Long-Term and Money Funds have no knowledge of the profits or losses realized by the respective broker-dealers for the fiscal years ended February 28, 1994, February 28, 1993 and February 29, 1992. With respect to the High Yield, New Income and Short-Term Bond Funds, the following amounts consisted of principal transactions as to which the Funds have no knowledge of the profits or losses realized by the respective broker-dealers for the fiscal years ended February 28, 1994, February 28, 1993 and February 29, 1992:

Fund	1994	1993	1992
High Yield	\$17,956,306,000	\$15,737,460,000	\$6,682,140,000
New Income	20,206,382,000	15,189,019,000	6,518,595,000
Short-Term Bond	0	0	5,034,535,000

The following amounts involved trades with brokers acting as agents or underwriters for the fiscal years ended February 28, 1994, February 28, 1993, and February 29, 1992:

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Fund	1994	1993	1992
High Yield	\$597,916,000	\$431,147,000	\$ 20,827,000
New Income	59,093,000	4,980,000	129,469,000
Short-Term Bond	0	0	5,000,000

The amounts shown below involved trades with brokers acting as agents or underwriters, in which such brokers received total commissions, including discounts received in connection with underwritings for the fiscal years ended February 28, 1994, February 28, 1993 and February 29, 1992:

Fund	1994	1993	1992
High Yield	\$16,730,000	\$3,661,000	\$1,201,000
New Income	169,000	20,000	402,000
Short-Term Bond	0	0	15,000

The percentage of total portfolio transactions, placed with firms which provided research, statistical, or other services to T. Rowe Price in connection with the management of the Funds, or in some cases, to the Funds for the fiscal years ended February 28, 1994, February 28, 1993 and February 29, 1992, are shown

below:

Fund	1994	1993	1992
Adjustable Rate	100%	94%	100%
GNMA	91%	91%	99%
High Yield	70%	70%	59%
New Income	61%	61%	87%
Prime Reserve	87%	81%	76%
Short-Term Bond	61%	84%	79%
Intermediate	85%	98%	100%
Long-Term	98%	99%	100%
Money	66%	75%	60%

The portfolio turnover rates for the following Funds for the fiscal years ended February 28, 1994, February 28, 1993 and February 29, 1992 are as follows:

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Fund	1994	1993	1992
Adjustable Rate	70.4%	110.8%	98.4%
GNMA	92.5%	94.2%	66.0%
High Yield	107.0%	104.4%	58.9%
New Income	58.3%	85.8%	49.7%
Short-Term Bond	90.8%	68.4%	380.7%
Intermediate	20.2%	22.8%	91.4%
Long-Term	59.4%	165.4%	162.4%

Prime Reserve Fund

The Fund, in pursuing its objectives, may engage in short-term trading to take advantage of market variations. The Fund will seek to protect principal, improve liquidity of its securities, or enhance yield by purchasing and selling securities based upon existing or anticipated market discrepancies.

Money Fund

The Fund, in pursuing its objectives, may engage in short-term trading to take advantage of market variations. The Fund will seek to protect principal, improve liquidity of its securities, or enhance yield by purchasing and selling securities based upon existing or anticipated market discrepancies.

PRICING OF SECURITIES

Adjustable Rate, GNMA, High Yield, New Income, Short-Term Bond,

Personal Strategy, U.S. Treasury Intermediate and Long-Term Funds

Fixed income securities are generally traded in the over-the-counter market. Investments in domestic securities with remaining maturities of one year or more and foreign securities are stated at fair value using a bid-side valuation as furnished by dealers who make markets in such securities or by an independent pricing service, which considers yield or price of bonds of comparable quality, coupon, maturity, and type, as well as prices quoted by dealers who make markets in such securities. Domestic securities with remaining maturities less than one year are stated at fair value which is determined by using a matrix system that establishes a value for each security based on bid-side money market yields.

There are a number of pricing services available, and the Board of Directors, on the basis of ongoing evaluation of these services, may use or may discontinue the use of any pricing service in whole or in part.

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Personal Strategy Funds

Equity securities listed or regularly traded on a securities exchange (including NASDAQ) are valued at the last quoted sales price on the day the valuations are made. A security which is listed or traded on more than one exchange is valued at the quotation on the exchange determined to be the primary market for such security. Other equity securities and those listed securities that are not traded on a particular day are valued at a price within the limits of the latest bid and asked prices deemed by the Board of Directors/Trustees, or by persons delegated by the Board, best to reflect fair value.

Prime Reserve and U.S. Treasury Money Funds

Securities with more than 60 days remaining to maturity are stated at fair value which is determined by using a matrix system that establishes a value for each security based on money market yields. Securities originally purchased with remaining maturities of 60 days or less are valued at amortized cost. In addition, securities purchased with maturities in excess of 60 days, but which currently have maturities of 60 days or less, are valued at their amortized cost for the 60 days prior to maturity--such amortization being based on the fair value of the securities on the 61st day prior to maturity.

All Funds

For the purposes of determining the Fund's net asset value per share, all assets and liabilities initially expressed in foreign currencies are converted into U.S. dollars at the mean of the bid and offer prices of such currencies against U.S. dollars quoted by any major bank.

Assets and liabilities for which the above valuation procedures are inappropriate or are deemed not to reflect fair value are stated at fair value, as determined in good faith by or under the supervision of officers of the Funds, as authorized by the Board of Directors.

Prime Reserve and Money Funds

Maintenance of Net Asset Value Per Share

It is the policy of the Fund to attempt to maintain a net asset value of \$1.00 per share by rounding to the nearest one cent. This method of valuation is commonly referred to as "penny rounding" and is permitted by Rule 2a-7 under the Investment Company Act of 1940. Under Rule 2a-7:

(a) the Board of Directors of the Fund must undertake to assure, to the extent reasonably practical taking into account current market conditions affecting the Fund's investment objectives, that the Fund's net asset value will not deviate from \$1.00 per share;

Prime Reserve Fund

(b) the Fund must (i) maintain a dollar-weighted average portfolio maturity appropriate to its objective of maintaining a stable price per share, (ii) not purchase any instrument with a remaining maturity greater than 397 days (or in the case of U.S. government securities greater than

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762 days), and (iii) maintain a dollar-weighted average portfolio maturity of 90 days or less;

Money Fund

(b) The Fund must (i) maintain a dollar-weighted average portfolio maturity appropriate to its objective of maintaining a stable price per share, (ii) not purchase any instrument with a remaining maturity greater than 762 days, and (iii) maintain a dollar-weighted average portfolio maturity of 90 days or less;

Prime Reserve and Money Funds

(c) the Fund must limit its purchase of portfolio instruments, including repurchase agreements, to those U.S. dollar-denominated instruments which the Fund's Board of Directors determines present minimal credit risks, and which are eligible securities as defined by Rule 2a-7; and

(d) the Board of Directors must determine that (i) it is in the best interest of the Fund and its shareholders to maintain a stable price per share under the penny rounding method; and (ii) the Fund will continue to use the penny rounding method only so long as the Board of Directors believes that it fairly reflects the market based net asset value per share.

Although the Fund believes that it will be able to maintain its net asset value at \$1.00 per share under most conditions, there can be no absolute assurance that it will be able to do so on a continuous basis. If the Fund's net asset value per share declined, or was expected to decline, below \$1.00 (rounded to the nearest one cent), the Board of Directors of the Fund might temporarily reduce or suspend dividend payments in an effort to maintain the net asset value at \$1.00 per share. As a result of such reduction or suspension of dividends, an investor would

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receive less income during a given period than if such a reduction or suspension had not taken place. Such action could result in an investor receiving no dividend for the period during which he holds his shares and in his receiving, upon redemption, a price per share lower than that which he paid. On the other hand, if the Fund's net asset value per share were to increase, or were anticipated to increase above \$1.00 (rounded to the nearest one cent), the Board of Directors of the Fund might supplement dividends in an effort to maintain the net asset value at \$1.00 per share.

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Prime Reserve Fund

Prime Money Market Securities Defined. Prime money market securities are those which are described as First Tier Securities under Rule 2a-7 of the Investment Company Act of 1940. These include any security with a remaining maturity of 397 days or less that is rated (or that has been issued by an issuer that is rated with respect to a class of short-term debt obligations, or any security within that class that is comparable in priority and security with the security) by any two nationally recognized statistical rating organizations (NRSROs) (or if only one NRSRO has issued a rating, that NRSRO) in the highest rating category

for short-term debt obligations (within which there may be sub-categories). First Tier Securities also include unrated securities comparable in quality to rated securities, as determined by T. Rowe Price under the supervision of the Fund's Board of Directors.

All Funds

NET ASSET VALUE PER SHARE

The purchase and redemption price of the Fund's shares is equal to the Fund's net asset value per share or share price. The Fund determines its net asset value per share by subtracting the Fund's liabilities (including accrued expenses and dividends payable) from its total assets (the market value of the securities the Fund holds plus cash and other assets, including income accrued but not yet received) and dividing the result by the total number of shares outstanding. The net asset value per share of the Fund is normally calculated as of the close of trading on the New York Stock Exchange ("NYSE") every day the NYSE is open for trading. The NYSE is closed on the following days: New Year's Day, Washington's Birthday, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

Determination of net asset value (and the offering, sale redemption and repurchase of shares) for the Fund may be suspended at times (a) during which the NYSE is closed, other than customary weekend and holiday closings, (b) during which trading on the NYSE is restricted, (c) during which an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, or (d) during which a governmental body having jurisdiction over the Fund may by order permit such a suspension for the protection of the Fund's shareholders; provided that applicable rules and regulations of the Securities and Exchange Commission (or any succeeding governmental authority) shall

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govern as to whether the conditions prescribed in (b), (c), or (d) exist.

DIVIDENDS AND DISTRIBUTIONS

Unless you elect otherwise, the Fund's annual capital gain distribution, if any, will be reinvested on the reinvestment date using the NAV per share of that date. The reinvestment date normally precedes the payment date by about 10 days although the exact timing is subject to change.

TAX STATUS

The Fund intends to qualify as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986, as amended ("Code").

A portion of the dividends paid by the Fund may be eligible for the dividends-received deduction for corporate shareholders. For tax purposes, it does not make any difference whether dividends and capital gain distributions are paid in cash or in additional shares. The Fund must declare dividends equal to at least 98% of ordinary income (as of December 31) and capital gains (as of October 31) in order to avoid a federal excise tax and distribute 100% of ordinary income and capital gains as of its tax year-end to avoid federal income tax.

At the time of your purchase, the Fund's net asset value may reflect undistributed capital gains or net unrealized appreciation of securities held by the Fund. A subsequent distribution to you of such amounts, although constituting a return of your investment, would be taxable as a capital gain distribution. For federal income tax purposes, the Fund is permitted to carry forward its net realized capital losses, if any, for eight years and realize net capital gains up to the amount of such losses without being required to pay taxes on, or distribute such gains. On May 31, 1994, the books of each Fund (other than the Personal Strategy Fund) indicated that each Fund's aggregate net assets included undistributed net income, net realized capital gains, and unrealized appreciation which are listed below.

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Fund	Undistributed Net Income	Net Realized Capital Gains	Unrealized Appreciation
Adjustable Rate			
GNMA			
High Yield			
New Income			
Prime Reserve			
Short-Term Bond			
Intermediate			
Long-Term			
Money			

If, in any taxable year, the Fund should not qualify as a regulated investment company under the Code: (i) the Fund would be taxed at normal corporate rates on the entire amount of its taxable income, if any, without deduction for dividends or other

distributions to shareholders; and (ii) the Fund's distributions to the extent made out of the Fund's current or accumulated earnings and profits would be taxable to shareholders as ordinary dividends (regardless of whether they would otherwise have been considered capital gain dividends).

Taxation of Foreign Shareholders

The Code provides that dividends from net income will be subject to U.S. tax. For shareholders who are not engaged in a business in the U.S., this tax would be imposed at the rate of 30% upon the gross amount of the dividends in the absence of a Tax Treaty providing for a reduced rate or exemption from U.S. taxation. Distributions of net long-term capital gains realized by the Fund are not subject to tax unless the foreign shareholder is a nonresident alien individual who was physically present in the U.S. during the tax year for more than 182 days.

Foreign Currency Gains and Losses

Foreign currency gains and losses, including the portion of gain or loss on the sale of debt securities attributable to foreign exchange rate fluctuations, are taxable as ordinary income. If the net effect of these transactions is a gain, the dividend paid by the Fund will be increased; if the result is a loss, the income dividend paid by the Fund will be decreased. Adjustments to reflect these gains and losses will be made at the end of the Fund's taxable year.

YIELD INFORMATION

From time to time, the Fund may advertise a yield figure calculated in the following manner:

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Adjustable Rate and GNMA Funds

In conformity with regulations of the Securities and Exchange Commission, an income factor is calculated for each security in the portfolio based upon the security's coupon rate. The income factors are then adjusted for any gains or losses which have resulted from prepayments of principal during the period. The income factors are then totalled for all securities in the portfolio. Next, expenses of the Fund for the period net of expected reimbursements, are deducted from the income to arrive at net income, which is then converted to a per-share amount by dividing net income by the average number of shares outstanding during the period. The net income per share is divided by the net asset value on the last day of the period to produce a monthly yield which is then annualized. Quoted yield

factors are for comparison purposes only, and are not intended to indicate future performance or forecast the dividend per share of the Fund.

The yields of the Adjustable Rate and GNMA Funds calculated under the above-described method for the month ended May 31, 1994 were ____% and _____%, respectively.

High Yield, New Income, Short-Term Bond, Intermediate and Long-Term Funds

An income factor is calculated for each security in the portfolio based upon the security's market value at the beginning of the period and yield as determined in conformity with regulations of the Securities and Exchange Commission. The income factors are then totalled for all securities in the portfolio. Next, expenses of the Fund for the period net of expected reimbursements are deducted from the income to arrive at net income, which is then converted to a per-share amount by dividing net income by the average number of shares outstanding during the period. The net income per share is divided by the net asset value on the last day of the period to produce a monthly yield which is then annualized. Quoted yield factors are for comparison purposes only, and are not intended to indicate future performance or forecast the dividend per share of the Fund.

The yields of the High Yield, New Income, Short-Term Bond, Intermediate and Long-Term Funds calculated under the above-described method for the month ended May 31, 1994, was _____%, _____%, _____% and _____%, respectively.

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Prime Reserve and Money Funds

The Fund's current and historical yield for a period is calculated by dividing the net change in value of an account (including all dividends accrued and dividends reinvested in additional shares) by the account value at the beginning of the period to obtain the base period return. This base period return is divided by the number of days in the period then multiplied by 365 to arrive at the annualized yield for that period. The Fund's annualized compound yield for such period is compounded by dividing the base period return by the number of days in the period, and compounding that figure over 365 days.

The seven-day yields ending May 31, 1993 for the Prime Reserve and Money Funds were _____% and _____%, respectively, and the Funds' compound yield for the same period were _____% and _____%, respectively.

INVESTMENT PERFORMANCE

Total Return Performance

The Fund's calculation of total return performance includes the reinvestment of all capital gain distributions and income dividends for the period or periods indicated, without regard to tax consequences to a shareholder in the Fund. Total return is calculated as the percentage change between the beginning value of a static account in the Fund and the ending value of that account measured by the then current net asset value, including all shares acquired through reinvestment of income and capital gains dividends. The results shown are historical and should not be considered indicative of the future performance of the Fund. Each average annual compound rate of return is derived from the cumulative performance of the Fund over the time period specified. The annual compound rate of return for the Fund over any other period of time will vary from the average.

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Cumulative Performance Percentage Change

	1 Yr. Ended 2/28/94	5 Yrs. Ended 2/28/94	10 Yrs. Ended 2/28/94	Since Inception- 2/28/94
Adjustable Rate U.S. Government Fund				
T. Rowe Price Adjustable Rate U.S. Government Fund, Inc.		3.11%		9.30% (9/30/91)
Lipper Average of Adjustable Rate Mortgage Funds				
	3.17			10.27
Merrill Lynch 1-3 Year Govt. Index				
	3.48			16.22
Salomon Brothers 1-Year Treasury Index				
	2.61			11.17
Salomon Brothers 2-Year Treasury Index				
	3.46			16.51
GNMA Fund				
T. Rowe Price GNMA Fund	3.71	61.78%		96.72 (11/26/85)
Salomon Brothers 30-Year GNMA Index				
	4.67	69.52		124.78

Lehman Brothers GNMA Bond Index	4.49	68.70	123.75
Lipper GNMA Funds Average	3.78	60.10	100.59
High Yield Fund			
High Yield Fund	16.59	58.38	176.57 (12/31/84)
Merrill Lynch High Yield Index	14.16	84.90	225.33
Merrill Lynch Medium Quality Long Corporate Index	8.89	85.02	223.61
Lipper's Average of High Current Yield Funds	16.66	71.26	174.45
New Income Fund			
New Income Fund	5.36	61.39	162.15% 514.54 (8/31/73)
Salomon Bros. Broad Investment Grade Index			
Salomon Bros. High Grade Corporate Bond Index	5.58	69.34	202.62 N/A
Lehman Bros. Govt./Corp. Bond Index	6.73	81.35	264.06 605.12
Lehman Bros. Govt./Corp. Bond Index	5.71	69.42	198.31 574.11
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Short-Term Bond Fund			
T. Rowe Price Short-Term Bond Fund	4.36	47.78	122.71 (3/2/84)
T. Rowe Price Prime Reserve Fund	2.60	30.24	88.03
Donoghue Average of all Taxable Money Funds	2.70	30.32	86.25
Lehman Bros. 1-3 Year Govt./Corp. Bond Index	3.62	50.11	139.27
Lipper Short Investment Grade Debt Funds Average	3.95	49.71	136.46
U.S. Treasury Intermediate Fund			
Intermediate Fund	3.80		47.81 (9/29/89)
Lehman Brothers Intermediate Treasury Index	4.23		48.86
U.S. Treasury Long-Term Fund			
Long-Term Fund	5.89		52.29 (9/29/89)
Lehman Brothers Government/Corporate Bond Index	5.71		54.53
Lehman Brothers Long Treasury Index	8.32		64.05

Merrill Lynch 10-15 Year

Treasury Index

6.54

61.96

Average Annual Compound Rates of Return

	1 Yr. Ended 2/28/94	5 Yrs. Ended 2/28/94	10 Yrs. Ended 2/28/94	Since Inception- 2/28/94
Adjustable Rate U.S. Government Fund				
T. Rowe Price Adjustable Rate U.S. Government Fund, Inc.		3.11%		3.75% (9/30/91)
Lipper Average of Adjustable Rate Mortgage Funds	3.17			4.13
Merrill Lynch 1-3 Year Govt. Index	3.48			6.42
Salomon Brothers 1-Year Treasury Index	2.61			4.48
Salomon Brothers 2-Year Treasury Index	3.46			6.53
PAGE 101 GNMA Fund				
T. Rowe Price GNMA Fund	3.71	61.78%		96.72 (11/26/85)
Salomon Brothers 30-Year GNMA Index	4.67	69.52		124.78
Lehman Brothers GNMA Bond Index		4.49	68.70	123.75
Lipper GNMA Funds Average	3.78	60.10		100.59
High Yield Fund				
High Yield Fund	16.59	9.63		11.74 (12/31/84)
Merrill Lynch High Yield Index		14.16	13.08	13.74
Merrill Lynch Medium Quality Long Corporate Index	8.89	13.09		13.67
Lipper's Average of High Current Yield Funds	16.66	11.28		11.55
New Income Fund				
New Income Fund	5.36	10.05	10.12%	9.26 (8/31/73)
Salomon Bros. Broad Investment Grade Index	5.58	11.11	11.71	N/A
Salomon Bros. High Grade Corporate Bond Index	6.73	12.64	13.79	9.99

Lehman Bros. Govt./Corp. Bond Index	5.71	11.12	11.55	9.75
Short-Term Bond Fund				
T. Rowe Price Short-Term Bond Fund		4.36	8.12	8.34 (3/2/84)
T. Rowe Price Prime Reserve Fund		2.60	5.42	6.52
Donoghue Average of all Taxable Money Funds	2.70	5.44		6.42
Lehman Bros. 1-3 Year Govt./Corp. Bond Index	3.62	8.46		9.12
Lipper Short Investment Grade Debt Funds Average	3.95	8.40		8.99
U.S. Treasury Intermediate Fund				
Intermediate Fund	3.80			9.25 (9/29/89)
Lehman Brothers Intermediate Treasury Index	4.23			9.43
PAGE 102				
U.S. Treasury Long-Term Fund				
Long-Term Fund	5.89			9.99 (9/29/89)
Lehman Brothers Government/Corporate Bond Index	5.71			10.36
Lehman Brothers Long Treasury Index		8.32		11.86
Merrill Lynch 10-15 Year Treasury Index	6.54			11.54

Outside Sources of Information

From time to time, in reports and promotional literature, one or more of the T. Rowe Price funds, including this Fund, may compare its performance to Overnight Government Repurchase Agreements, Treasury bills, notes, and bonds, certificates of deposit, and six-month money market certificates. Performance may also be compared to (1) indices of broad groups of managed or unmanaged securities considered to be representative of or similar to Fund portfolio holdings; (2) other mutual funds; or (3) other measures of performance set forth in publications such as:

Advertising News Service, Inc., "Bank Rate Monitor+ - The Weekly Financial Rate Reporter" is a weekly publication which lists the yields on various money market instruments offered to the public by 100 leading banks and thrift institutions in the U.S., including loan rates offered by these banks. Bank

certificates of deposit differ from mutual funds in several ways: the interest rate established by the sponsoring bank is fixed for the term of a CD; there are penalties for early withdrawal from CDs; and the principal on a CD is insured.

Donoghue Organization, Inc., "Donoghue's Money Fund Report" is a weekly publication which tracks net assets, yield, maturity and portfolio holdings on approximately 380 money market mutual funds offered in the U.S. These funds are broken down into various categories such as U.S. Treasury, Domestic Prime and Euros, Domestic Prime and Euros and Yankees, and Aggressive.

First Boston High Yield Index. It shows statistics on the Composite Index and analytical data on new issues in the marketplace and low-grade issuers.

Lipper Analytical Services, Inc., "Lipper-Fixed Income Fund Performance Analysis" is a monthly publication which tracks net assets, total return, principal return and yield on approximately 950 fixed income mutual funds offered in the United States.

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Merrill Lynch, Pierce, Fenner & Smith, Inc., "Taxable Bond Indices" is a monthly publication which lists principal, coupon and total return on over 100 different taxable bond indices tracked by Merrill Lynch, together with the par weighted characteristics of each Index. The index used as a benchmark for the High Yield Fund is the High Yield Index. The two indices used as benchmarks for the Short-Term Bond Fund are the 91-Day Treasury Bill Index and the 1-2.99 Year Treasury Note Index.

Morningstar, Inc., is a widely used independent research firm which rates mutual funds by overall performance, investment objectives and assets.

Salomon Brothers Inc., "Analytical Record of Yields and Yield Spreads" is a publication which tracks historical yields and yield spreads on short-term market rates, public obligations of the U.S. Treasury and agencies of the U.S. government, public corporate debt obligations, municipal debt obligations and preferred stocks.

Salomon Brothers Inc., "Bond Market Round-up" is a weekly publication which tracks the yields and yield spreads on a large, but select, group of money market instruments, public corporate debt obligations, and public obligations of the U.S. Treasury and agencies of the U.S. Government.

Salomon Brothers Inc., "High Yield Composite Index" is an index which provides performance and statistics for the high yield market place.

Salomon Brothers Inc., "Market Performance" is a monthly publication which tracks principal return, total return and yield on the Salomon Brothers Broad investment - Grade Bond Index and the components of the Index.

Shearson Lehman Brothers, Inc., "The Bond Market Report" is a monthly publication which tracks principal, coupon and total return on the Shearson Lehman Govt./Corp. Index and Shearson Lehman Aggregate Bond Index, as well as all the components of these Indices.

Telerate Systems, Inc., is a market data distribution network which tracks a broad range of financial markets including, the daily rates on money market instruments, public corporate debt obligations and public obligations of the U.S. Treasury and agencies of the U.S. Government.

Wall Street Journal, is a national daily financial news publication which lists the yields and current market values on money market instruments, public corporate debt obligations,

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public obligations of the U.S. Treasury and agencies of the U.S. government as well as common stocks, preferred stocks, convertible preferred stocks, options and commodities; in addition to indices prepared by the research departments of such financial organizations as Shearson Lehman/American Express Inc., and Merrill Lynch, Pierce, Fenner and Smith, Inc., including information provided by the Federal Reserve Board.

Performance rankings and ratings reported periodically in national financial publications such as MONEY, FORBES, BUSINESS WEEK, BARRON'S, etc. will also be used.

All Funds, Except Prime Reserve Fund

Benefits of Investing in High-Quality Bond Funds

o Higher Income

Bonds have generally provided a higher income than money market securities because yield usually increased with longer maturities. For instance, the yield on the 30-year Treasury bond usually exceeds the yield on the 1-year Treasury bill or 5-year Treasury note. However, securities with longer maturities fluctuate more in price than those with shorter

maturities. Therefore, the investor must weigh the advantages of higher yields against the possibility of greater fluctuation in the principal value of your investment.

- o Income Compounding

Investing in bond mutual funds allows investors to benefit from easy and convenient compounding, because you can automatically reinvest monthly dividends in additional fund shares. Each month investors earn interest on a larger number of shares. Also, reinvesting dividends removes the temptation to spend the income.

- o Broad Diversification

Each share of a mutual fund represents an interest in a large pool of securities, so even a small investment is broadly diversified by maturity. Since most bonds trade efficiently only in very large blocks, mutual funds provide a degree of diversification that may be difficult for individual investors to achieve on their own.

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- o Lower Portfolio Volatility

Investing a portion of one's assets in longer term, high-quality bonds can help smooth out the fluctuations in your overall investment results, because bond prices do not necessarily move with stock prices. Also, bonds usually have higher income yields than stocks, thus increasing the total income component of your portfolio. This strategy should also add stability to overall results, as income is always a positive component of total return.

- o Liquidity

A bond fund can supplement a money market fund or bank account as a source of capital for unexpected contingencies. T. Rowe Price fixed-income funds offer you easy access to money through free checkwriting and convenient redemption or exchange features. Of course, the value of a bond fund's shares redeemed through checkwriting may be worth more or less than their value at the time of their original purchase.

- o Suitability

High-quality bond funds are most suitable for the following objectives: obtaining a higher current income with minimal credit risk; compounding of income over time; or diversifying overall investments to reduce volatility.

All Funds

IRAs

An IRA is a long-term investment whose objective is to accumulate personal savings for retirement. Due to the long-term nature of the investment, even slight differences in performance will result in significantly different assets at retirement. Mutual funds, with their diversity of choice, can be used for IRA investments. Generally, individuals may need to adjust their underlying IRA investments as their time to retirement and tolerance for risk changes.

Other Features and Benefits

The Fund is a member of the T. Rowe Price Family of Funds and may help investors achieve various long-term investment goals, such as investing money for retirement, saving for a down payment on a home, or paying college costs. To explain how the Fund could be used to assist investors in planning for these goals and to illustrate basic principles of investing, various worksheets and guides prepared by T. Rowe Price Associates, Inc. and/or T. Rowe Price Investment Services, Inc. may be made

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available. These currently include: the Asset Mix Worksheet which is designed to show shareholders how to reduce their investment risk by developing a diversified investment plan; the College Planning Guide which discusses various aspects of financial planning to meet college expenses and assists parents in projecting the costs of a college education for their children; the Retirement Planning Kit (also available in a PC version) includes a detailed workbook to determine how much money you may need for retirement and suggests how you might invest to achieve your objectives; and the Retirees Financial Guide which includes a detailed workbook to determine how much money you can afford to spend and still preserve your purchasing power and suggests how you might invest to reach your goal. From time to time, other worksheets and guides may be made available as well. Of course, an investment in the Fund cannot guarantee that such goals will be met.

To assist investors in understanding the different returns and risk characteristics of various investments, the aforementioned guides will include presentation of historical returns of various investments using published indices. An example of this is shown below.

Historical Returns for Different Investments

Annualized returns for periods ended 12/31/93

	50 years	20 years	10 years	5 years
Small-Company Stocks	15.3%	18.8%	10.0%	13.3%
Large-Company Stocks	12.3	12.8	14.9	14.5
Foreign Stocks	N/A	14.4	17.9	2.3
Long-Term Corporate Bonds	5.6	10.2	14.0	13.0
Intermediate-Term U.S. Gov't. Bonds	5.7	9.8	11.4	11.3
Treasury Bills	4.6	7.5	6.4	5.6
U.S. Inflation	4.3	5.9	3.7	3.9

Sources: Ibbotson Associates, Morgan Stanley. Foreign stocks reflect performance of The Morgan Stanley Capital International EAFE Index, which includes some 1,000 companies representing the stock markets of Europe, Australia, New Zealand, and the Far East. This chart is for illustrative purposes only and should not be considered as performance for, or the annualized return

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of, any T. Rowe Price Fund. Past performance does not guarantee future results.

Also included will be various portfolios demonstrating how these historical indices would have performed in various combinations over a specified time period in terms of return. An example of this is shown below.

Performance of Retirement Portfolios*

Asset Mix				Average Annualized Returns 20 Years Ended 12/31/93		Value of \$10,000 Investment After Period	
Portfolio	Growth	Income	Safety	Nominal Return	Real Return**	Best Year	Worst Year
I. Low Risk	40%	40%	20%	11.3%	5.4%	24.9%	-9.3%
							\$ 79,775

II.	Moderate								
	Risk	60%	30%	10%	12.1%	6.2%	29.1%	-15.6%	\$ 90,248
III.	High								
	Risk	80%	20%	0%	12.9%	7.0%	33.4%	-21.9%	\$100,031

Source: T. Rowe Price Associates; data supplied by Lehman Brothers, Wilshire Associates, and Ibbotson Associates.

* Based on actual performance for the 20 years ended 1993 of stocks (85% Wilshire 5000 and 15% Europe, Australia, Far East [EAFE] Index), bonds (Lehman Brothers Aggregate Bond Index from 1976-93 and Lehman Brothers Government/Corporate Bond Index from 1974-75), and 30-day Treasury bills from January 1974 through December 1993. Past performance does not guarantee future results. Figures include changes in principal value and reinvested dividends and assume the same asset mix is maintained each year. This exhibit is for illustrative purposes only and is not representative of the performance of any T. Rowe Price fund.

** Based on inflation rate of 5.9% for the 20-year period ended 12/31/93.

Insights

From time to time, Insights, a T. Rowe Price publication of reports on specific investment topics and strategies, may be

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included in the Fund's fulfillment kit. Such reports may include information concerning: calculating taxable gains and losses on mutual fund transactions, coping with stock market volatility, benefiting from dollar cost averaging, understanding international markets, investing in high-yield "junk" bonds, growth stock investing, conservative stock investing, value investing, investing in small companies, tax-free investing, fixed income investing, investing in mortgage-backed securities, as well as other topics and strategies.

Other Publications

From time to time, in newsletters and other publications issued by T. Rowe Price Investment Services, Inc., reference may be made to economic, financial and political developments in the U.S. and abroad and their effect on securities prices. Such discussions may take the form of commentary on these developments by T. Rowe Price mutual fund portfolio managers and their views and analysis on how such developments could affect investments in mutual funds.

Redemptions in Kind

In the unlikely event a shareholder were to receive an in kind redemption of portfolio securities of the Fund, brokerage fees could be incurred by the shareholder in a subsequent sale of such securities.

Issuance of Fund Shares for Securities

Transactions involving issuance of Fund shares for securities or assets other than cash will be limited to (1) bona fide reorganizations; (2) statutory mergers; or (3) other acquisitions of portfolio securities that: (a) meet the investment objective and policies of the Fund; (b) are acquired for investment and not for resale except in accordance with applicable law; (c) have a value that is readily ascertainable via listing on or trading in a recognized United States or international exchange or market; and (d) are not illiquid.

All Funds, Except GNMA Fund

CAPITAL STOCK

The Fund's Charter authorizes the Board of Directors to classify and reclassify any and all shares which are then unissued, including unissued shares of capital stock into any number of classes or series, each class or series consisting of such number of shares and having such designations, such powers, preferences, rights, qualifications, limitations, and

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restrictions, as shall be determined by the Board subject to the Investment Company Act and other applicable law. The shares of any such additional classes or series might therefore differ from the shares of the present class and series of capital stock and from each other as to preferences, conversions or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption, subject to applicable law, and might thus be superior or inferior to the capital stock or to other classes or series in various characteristics. The Board of Directors may increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Fund has authorized to issue without shareholder approval.

Except to the extent that the Fund's Board of Directors might provide by resolution that holders of shares of a particular class are entitled to vote as a class on specified matters presented for a vote of the holders of all shares entitled to vote on such matters, there would be no right of class vote unless and to the extent that such a right might be

construed to exist under Maryland law. The Charter contains no provision entitling the holders of the present class of capital stock to a vote as a class on any matter. Accordingly, the preferences, rights, and other characteristics attaching to any class of shares, including the present class of capital stock, might be altered or eliminated, or the class might be combined with another class or classes, by action approved by the vote of the holders of a majority of all the shares of all classes entitled to be voted on the proposal, without any additional right to vote as a class by the holders of the capital stock or of another affected class or classes.

Shareholders are entitled to one vote for each full share held (and fractional votes for fractional shares held) and will vote in the election of or removal of directors (to the extent hereinafter provided) and on other matters submitted to the vote of shareholders. There will normally be no meetings of shareholders for the purpose of electing directors unless and until such time as less than a majority of the directors holding office have been elected by shareholders, at which time the directors then in office will call a shareholders' meeting for the election of directors. Except as set forth above, the directors shall continue to hold office and may appoint successor directors. Voting rights are not cumulative, so that the holders of more than 50% of the shares voting in the election of directors can, if they choose to do so, elect all the directors of the Fund, in which event the holders of the remaining shares will be unable to elect any person as a director. As set forth in the By-Laws of the Fund, a special meeting of shareholders of the Fund shall be called by the Secretary of the Fund on the written request of shareholders entitled to cast at least 10% of

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all the votes of the Fund entitled to be cast at such meeting. Shareholders requesting such a meeting must pay to the Fund the reasonably estimated costs of preparing and mailing the notice of the meeting. The Fund, however, will otherwise assist the shareholders seeking to hold the special meeting in communicating to the other shareholders of the Fund to the extent required by Section 16(c) of the Investment Company Act of 1940.

GNMA Fund

DESCRIPTION OF THE FUND

For tax and business reasons, the Fund was organized in 1985 as a Massachusetts Business Trust and is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 as a diversified, open-end investment company, commonly known as a "mutual fund."

The Declaration of Trust permits the Board of Trustees to issue an unlimited number of full and fractional shares of a single class. The Declaration of Trust also provides that the Board of Trustees may issue additional series or classes of shares. Each share represents an equal proportionate beneficial interest in the Fund. In the event of the liquidation of the Fund, each share is entitled to a pro rata share of the net assets of the Fund.

Shareholders are entitled to one vote for each full share held (and fractional votes for fractional shares held) and will vote in the election of or removal of trustees (to the extent hereinafter provided) and on other matters submitted to the vote of shareholders. There will normally be no meetings of shareholders for the purpose of electing trustees unless and until such time as less than a majority of the trustees holding office have been elected by shareholders, at which time the trustees then in office will call a shareholders' meeting for the election of trustees. Pursuant to Section 16(c) of the Investment Company Act of 1940, holders of record of not less than two-thirds of the outstanding shares of the Fund may remove a trustee by a vote cast in person or by proxy at a meeting called for that purpose. Except as set forth above, the trustees shall continue to hold office and may appoint successor trustees. Voting rights are not cumulative, so that the holders of more than 50% of the shares voting in the election of trustees can, if they choose to do so, elect all the trustees of the Trust, in which event the holders of the remaining shares will be unable to elect any person as a trustee. No amendments may be made to the Declaration of Trust without the affirmative vote of a majority of the outstanding shares of the Trust.

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Shares have no preemptive or conversion rights; the right of redemption and the privilege of exchange are described in the prospectus. Shares are fully paid and nonassessable, except as set forth below. The Trust may be terminated (i) upon the sale of its assets to another diversified, open-end management investment company, if approved by the vote of the holders of two-thirds of the outstanding shares of the Trust, or (ii) upon liquidation and distribution of the assets of the Trust, if approved by the vote of the holders of a majority of the outstanding shares of the Trust. If not so terminated, the Trust will continue indefinitely.

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of the Fund. However, the Declaration of Trust disclaims shareholder liability for acts or obligations of the Fund and requires that notice of such disclaimer be given in each

agreement, obligation or instrument entered into or executed by the Fund or a Trustee. The Declaration of Trust provides for indemnification from Fund property for all losses and expenses of any shareholder held personally liable for the obligations of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Fund itself would be unable to meet its obligations, a possibility which T. Rowe Price believes is remote. Upon payment of any liability incurred by the Fund, the shareholders of the Fund paying such liability will be entitled to reimbursement from the general assets of the Fund. The Trustees intend to conduct the operations of the Fund in such a way so as to avoid, as far as possible, ultimate liability of the shareholders for liabilities of such Fund.

FEDERAL AND STATE REGISTRATION OF SHARES

The Fund's shares are registered for sale under the Securities Act of 1933, and the Fund or its shares are registered under the laws of all states which require registration, as well as the District of Columbia and Puerto Rico.

LEGAL COUNSEL

Shereff, Friedman, Hoffman, & Goodman, whose address is 919 Third Avenue, New York, New York 10022, is legal counsel to the Fund.

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INDEPENDENT ACCOUNTANTS

GNMA, High Yield, New Income, Prime Reserve, Short-Term Bond and Money Funds

Price Waterhouse, 7 St. Paul Street, Suite 1700, Baltimore, Maryland 21202, are independent accountants to the Fund.

Adjustable Rate, Intermediate and Long-Term Funds

Coopers & Lybrand, 217 East Redwood Street, Baltimore, Maryland 21202, are independent accountants to the Fund.

Financial Statements

The financial statements of the Fund for the year ended February 28, 1994, and the report of independent accountants are included in the Fund's Annual Report for the period February 28,

1994. A copy of the Annual Report accompanies this Statement of Additional Information. The following financial statements and the report of independent accountants appearing in the Annual Report for the year ended February 28, 1994 are incorporated into this Statement of Additional Information by reference:

	GNMA	NEW INCOME	PRIME RESERVE	SHORT- TERM BOND
	_____	_____	_____	_____
Report of Independent Accountants	12	15	11	17
Statement of Net Assets, February 28, 1994	6-7	6-10	5-8	6-11
Statement of Operations, year ended February 28, 1994	8	11	8	12
Statement of Changes in Net Assets, years ended February 28, 1994 and February 28, 1993	9	12	9	13
Notes to Financial Statements February 28, 1994	9-11	12-14	9-10	14-15
Financial Highlights	11	14	11	16

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	MONEY	INTERMEDIATE	LONG-TERM
	_____	_____	_____
Report of Independent Accountants	18	19	19
Statement of Net Assets, February 28, 1994	7-9	8-9	10-11
Statement of Operations, year ended February 28, 1994	11	11	11
Statement of Changes in Net Assets, years ended February 28, 1994 and February 28, 1993	12	12	12
Notes to Financial Statements February 28, 1994	13-14	13-14	13-14
Financial Highlights	15	16	17

	ADJUSTABLE RATE	HIGH YIELD
	_____	_____
Report of Independent Accountants	13	19
Portfolio of Investments, February 28, 1994	5-7	6-13
Statement of Assets and		

Liabilities, February 28, 1994	7	14
Statement of Operations, year ended February 28, 1994	8	15
Statement of Changes in Net Assets, years ended February 28, 1994 and February 28, 1993	9	16
Notes to Financial Statements February 28, 1994	10-11	16-18
Financial Highlights	12	18

RATINGS OF COMMERCIAL PAPER

Adjustable Rate, High Yield, Prime Reserve and Short-Term Bond Funds

Moody's Investors Service, Inc.: The rating of Prime-1 is the highest commercial paper rating assigned by Moody's. Among the factors considered by Moody's in assigning ratings are the following: valuation of the management of the issuer; economic evaluation of the issuer's industry or industries and an appraisal of speculative-type risks which may be inherent in certain areas; evaluation of the issuer's products in relation to competition and customer acceptance; liquidity; amount and quality of long-term debt; trend of earnings over a period of 10

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years; financial strength of the parent company and the relationships which exist with the issuer; and recognition by the management of obligations which may be present or may arise as a result of public interest questions and preparations to meet such obligations. These factors are all considered in determining whether the commercial paper is rated P1, P2, or P3.

Standard & Poor's Corporation: Commercial paper rated A (highest quality) by S&P has the following characteristics: liquidity ratios are adequate to meet cash requirements; long-term senior debt is rated "A" or better, although in some cases "BBB" credits may be allowed. The issuer has access to at least two additional channels of borrowing. Basic earnings and cash flow have an upward trend with allowance made for unusual circumstances. Typically, the issuer's industry is well established and the issuer has a strong position within the industry. The reliability and quality of management are unquestioned. The relative strength or weakness of the above factors determines whether the issuer's commercial paper is rated A1, A2, or A3.

Prime Reserve Fund

Fitch Investors Service, Inc.: Fitch 1 - Highest grade.

Commercial paper assigned this rating is regarded as having the strongest degree of assurance for timely payment. Fitch 2 - Very good grade. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than the strongest issues.

RATINGS OF CORPORATE DEBT SECURITIES

Adjustable Rate, High Yield, New Income, Short-Term Bond, and Personal Strategy Funds

Moody's Investors Services, Inc. (Moody's)

Aaa-Bonds rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge."

Aa-Bonds rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds.

A-Bonds rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations.

Baa-Bonds rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be

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lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba-Bonds rated Ba are judged to have speculative elements: their futures cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterize bonds in this class.

B-Bonds rated B generally lack the characteristics of a desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa-Bonds rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca-Bonds rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked short-comings.

Standard & Poor's Corporation (S&P)

AAA-This is the highest rating assigned by Standard & Poor's to a debt obligation and indicates an extremely strong capacity to pay principal and interest.

AA-Bonds rated AA also qualify as high-quality debt obligations. Capacity to pay principal and interest is very strong.

A-Bonds rated A have a strong capacity to pay principal and interest, although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.

BBB-Bonds rated BBB are regarded as having an adequate capacity to pay principal and interest. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay principal and interest for bonds in this category than for bonds in the A category.

BB, C, CCC, CC-Bonds rated BB, B, CCC, and CC are regarded on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. BB indicates the lowest degree of speculation and CC the highest

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degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

Fitch Investors Service, Inc.

AAA-High grade, broadly marketable, suitable for investment by trustees and fiduciary institutions, and liable to but slight market fluctuation other than through changes in the money rate. The prime feature of a "AAA" bond is the showing of earnings several times or many times interest requirements for such stability of applicable interest that safety is beyond reasonable question whenever changes occur in conditions. Other features may enter, such as a wide margin of protection through collateral, security or direct lien on specific property. Sinking funds or voluntary reduction of debt by call or purchase or often factors, while guarantee or assumption by parties other

than the original debtor may influence their rating.

AA-Of safety virtually beyond question and readily salable. Their merits are not greatly unlike those of "AAA" class but a bond so rated may be junior though of strong lien, or the margin of safety is less strikingly broad. The issue may be the obligation of a small company, strongly secured, but influenced as to rating by the lesser financial power of the enterprise and more local type of market.

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PART C
OTHER INFORMATION

Item 24. Financial Statements and Exhibits.

(a) Financial Statements.

A Statement of Assets and Liabilities of Registrant as of _____ appears in the Statement of Additional Information. Such Statement has been examined by _____, independent accountants, and has been included in the Statement of Additional Information in reliance on the report of such accountants appearing in the Statement of Additional Information given upon their authority as experts in auditing and accounting.+ All other financial statements, schedules and historical information have been omitted as the subject matter is not required, not present, or not present in amounts sufficient to require submission.

(b) Exhibits.

- (1) Articles of Incorporation of Registrant, dated May 12, 1994
- (2) By-Laws of Registrant, dated May 12, 1994
- (3) Inapplicable
- (4) See Article SIXTH, Capital Stock, Paragraphs (b)-(g) of the Articles of Incorporation, Article II, Shareholders, Sections 2.01-2.11 and Article VIII, Capital Stock, Sections 8.01-8.05 of the By-Laws filed as Exhibits to this Registration Statement
- (5) (a) Investment Management Agreement between the Registrant on behalf of the T. Rowe Price Personal Strategy Balanced Fund and T. Rowe Price Associates, Inc. (to be filed by amendment)

- (5) (b) Investment Management Agreement between the Registrant on behalf of the T. Rowe Price Personal Strategy Growth Fund and T. Rowe Price Associates, Inc. (to be filed by amendment)

+ Omitted from Registration Statement as initially filed since Registrant has no assets or liabilities and has never had any assets or liabilities. Registrant proposes to raise its minimum capital through an initial private offering of shares at \$_____ per share.

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- (5) (c) Investment Management Agreement between the Registrant on behalf of the T. Rowe Price Personal Strategy Income Fund and T. Rowe Price Associates, Inc. (to be filed by amendment)
- (6) Underwriting Agreement between Registrant and T. Rowe Price Investment Services, Inc. (to be filed by amendment)
- (7) Inapplicable
- (8) (a) Custodian Agreement between T. Rowe Price Funds and State Street Bank and Trust Company (to be filed by amendment)
- (8) (b) Global Custody Agreement between the Chase Manhattan Bank, N.A. and the T. Rowe Price Funds (to be filed by amendment)

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- (9) (a) Transfer Agency and Service Agreement between T. Rowe Price Services, Inc. and T. Rowe Price Funds (to be filed by amendment)
- (9) (b) Agreement between T. Rowe Price Associates, Inc. and T. Rowe Price Funds for Fund Accounting Services (to be filed by amendment)
- (9) (c) Agreement between T. Rowe Price Retirement Plan Services, Inc. and the Taxable Funds (to be filed by amendment)
- (10) Opinion of Counsel, dated May 17, 1994
- (11) Inapplicable
- (12) Inapplicable

- (13) Inapplicable
- (14) Inapplicable
- (15) Inapplicable
- (16) Inapplicable

Item 25. Persons Controlled by or Under Common Control With Registrant.

None

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Item 26. Number of Holders of Securities.

As of May 17, 1994, there were zero shareholders in the T. Rowe Price Personal Strategy Funds, Inc.

Item 27. Indemnification.

If approved by the other named insureds, the Registrant intends to become a named insured on comprehensive Errors and Omissions and Officers and Directors insurance policies written by the Evanston Insurance Company, The Chubb Group, and ICI Mutual Insurance Co. These policies provide coverage for the named insureds, which include T. Rowe Price Associates, Inc. ("Manager"), Rowe Price-Fleming International, Inc. ("Price-Fleming"), T. Rowe Price Investment Services, Inc., T. Rowe Price Services, Inc., T. Rowe Price Trust Company, T. Rowe Price Stable Asset Management, Inc., RPF International Bond Fund and thirty-six other investment companies, namely, T. Rowe Price Growth Stock Fund, Inc., T. Rowe Price New Horizons Fund, Inc., T. Rowe Price New Era Fund, Inc., T. Rowe Price New Income Fund, Inc., T. Rowe Price Prime Reserve Fund, Inc., T. Rowe Price Tax-Free Income Fund, Inc., T. Rowe Price Tax-Exempt Money Fund, Inc., T. Rowe Price International Funds, Inc., T. Rowe Price Growth & Income Fund, Inc., T. Rowe Price Tax-Free Short-Intermediate Fund, Inc., T. Rowe Price Short-Term Bond Fund, Inc., T. Rowe Price High Yield Fund, Inc., T. Rowe Price Tax-Free High Yield Fund, Inc., T. Rowe Price New America Growth Fund, T. Rowe Price Equity Income Fund, T. Rowe Price GNMA Fund, T. Rowe Price Capital Appreciation Fund, T. Rowe Price State Tax-Free Income Trust, T. Rowe Price California Tax-Free Income Trust, T. Rowe Price Science & Technology Fund, Inc., T. Rowe Price Small-Cap Value Fund, Inc., Institutional International Funds, Inc., T. Rowe Price U.S. Treasury Funds, Inc., T. Rowe Price Index Trust, Inc., T. Rowe Price Spectrum Fund, Inc., T. Rowe Price Balanced Fund, Inc., T. Rowe Price Adjustable Rate U.S. Government Fund, Inc., T. Rowe Price Mid-Cap Growth Fund,

Inc., T. Rowe Price OTC Fund, Inc., T. Rowe Price Tax-Free Insured Intermediate Bond Fund, Inc., T. Rowe Price Dividend Growth Fund, Inc., T. Rowe Price Blue Chip Growth Fund, Inc., T. Rowe Price Summit Funds, Inc., T. Rowe Price Summit Municipal Funds, Inc., T. Rowe Price Equity Series, Inc., and T. Rowe Price International Series, Inc. The Registrant and the thirty-six investment companies listed above, with the exception of Institutional International Funds, Inc., T. Rowe Price Equity Series, Inc., and T. Rowe Price International Series, Inc., will be collectively referred to as the Price Funds. The investment manager for the Price Funds, including T. Rowe Price Equity Series, Inc., is the Manager. Price-Fleming is the investment manager to T. Rowe Price International Funds, Inc., Institutional

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International Funds, Inc., and T. Rowe Price International Series, Inc., and is 50% owned by TRP Finance, Inc., a wholly-owned subsidiary of the Manager, 25% owned by Copthall Overseas Limited, a wholly-owned subsidiary of Robert Fleming Holdings Limited, and 25% owned by Jardine Fleming International Holdings Limited. In addition to the corporate insureds, the policies also cover the officers, directors, and employees of each of the named insureds. The premium is allocated among the named corporate insureds in accordance with the provisions of Rule 17d-1(d) (7) under the Investment Company Act of 1940.

General. The Charter of the Corporation provides that to the fullest extent permitted by Maryland or federal law, no director or officer of the Corporation shall be personally liable to the Corporation or the holders of Shares for money damages and each director and officer shall be indemnified by the Corporation; provided, however, that nothing herein shall be deemed to protect any director or officer of the Corporation against any liability to the Corporation of the holders of Shares to which such director or officer would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

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Article X, Section 10.01 of the Registrant's By-Laws provides as follows:

Section 10.01 Indemnification and Payment of Expenses in Advance. The Corporation shall indemnify any individual ("Indemnitee") who is a present or former director, officer, employee, or agent of the Corporation, or who is or has been serving at the request of the Corporation as a director,

officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, who, by reason of his position was, is, or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (hereinafter collectively referred to as a "Proceeding") against any judgments, penalties, fines, settlements, and reasonable expenses (including attorneys' fees) incurred by such Indemnitee in connection with any Proceeding, to the fullest extent that such indemnification may be lawful under applicable Maryland law, as from time to time amended. The Corporation shall pay any reasonable expenses so incurred by such Indemnitee in defending a Proceeding in advance of the final disposition thereof to the fullest extent that such advance payment may be lawful under applicable Maryland law, as from time to time amended. Subject to any applicable limitations and requirements set forth in the Corporation's Articles of

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Incorporation and in these By-Laws, any payment of indemnification or advance of expenses shall be made in accordance with the procedures set forth in applicable Maryland law, as from time to time amended.

Notwithstanding the foregoing, nothing herein shall protect or purport to protect any Indemnitee against any liability to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his office ("Disabling Conduct").

Anything in this Article X to the contrary notwithstanding, no indemnification shall be made by the Corporation to any Indemnitee unless:

- (a) there is a final decision on the merits by a court or other body before whom the Proceeding was brought that the Indemnitee was not liable by reason of Disabling Conduct; or
- (b) in the absence of such a decision, there is a reasonable determination, based upon a review of the facts, that the Indemnitee was not liable by reason of Disabling Conduct, which determination shall be made by:
 - (i) the vote of a majority of a quorum of directors who are neither "interested persons" of the Corporation as defined in Section 2(a)(19) of the Investment Company Act of 1940, nor parties to the

Proceeding; or

- (ii) an independent legal counsel in a written opinion.

Anything in this Article X to the contrary notwithstanding, any advance of expenses by the Corporation to any Indemnatee shall be made only upon the undertaking by such Indemnatee to repay the advance unless it is ultimately determined that such Indemnatee is entitled to indemnification as above provided, and only if one of the following conditions is met:

- (a) the Indemnatee provides a security for his undertaking; or

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- (b) the Corporation shall be insured against losses arising by reason of any lawful advances; or
- (c) there is a determination, based on a review of readily available facts, that there is reason to believe that the Indemnatee will ultimately be found entitled to indemnification, which determination shall be made by:

- (i) a majority of a quorum of directors who are neither "interested persons" of the Corporation as defined in Section 2(a)(19) of the Investment Company Act of 1940, nor parties to the Proceeding; or

- (ii) an independent legal counsel in a written opinion.

Section 10.02 of the Registrant's By-Laws provides as follows:

Section 10.02 Insurance of Officers, Directors, Employees and Agents. To the fullest extent permitted by applicable Maryland law and by Section 17(h) of the Investment Company Act of 1940, as from time to time amended, the Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Corporation, or who is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against any liability asserted against him and incurred by him in or arising out of his position, whether or not the Corporation would have the power to indemnify him against such liability.

Insofar as indemnification for liability arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the

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payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Item 28. Business and Other Connections of Investment Manager.

Rowe Price-Fleming International, Inc. ("Price-Fleming"), a Maryland corporation, is a corporate joint venture 50% owned by TRP Finance, Inc., a wholly-owned subsidiary of the Manager, and was organized in 1979 to provide investment counsel service with respect to foreign securities for institutional investors in the United States. Price-Fleming, in addition to managing private counsel client accounts, also sponsors registered investment companies which invest in foreign securities, serves as general partner of RPFI International Partners, Limited Partnership, and provides investment advice to the T. Rowe Price Trust Company, trustee of the International Common Trust Fund.

T. Rowe Price Investment Services, Inc. ("Investment Services"), a wholly-owned subsidiary of the Manager, is a Maryland corporation organized in 1980 for the purpose of acting as the principal underwriter and distributor for the Price Funds. Investment Services is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. In 1984, Investment Services expanded its activities to include a discount brokerage service.

TRP Distribution, Inc., a wholly-owned subsidiary of Investment Services, is a Maryland corporation organized in 1991. It was organized for and engages in the sale of certain investment related products prepared by Investment Services.

T. Rowe Price Associates Foundation, Inc., was organized in 1981 for the

purpose of making charitable contributions to religious, charitable, scientific, literary and educational organizations. The Foundation (which is not a subsidiary of the Manager) is funded solely by contributions from the Manager and income from investments.

T. Rowe Price Services, Inc. ("Price Services"), a wholly-owned subsidiary of the Manager, is a Maryland corporation organized in 1982 and is registered as a transfer agent under the Securities Exchange Act of 1934. Price Services provides transfer agent, dividend disbursing, and certain other services, including shareholder services, to the Price Funds.

T. Rowe Price Retirement Plan Services, Inc. ("RPS"), a wholly-owned subsidiary of the Manager, was incorporated in Maryland in 1991 and is registered as a transfer agent under the Securities Exchange Act of 1934. RPS provides administrative, recordkeeping, and subaccounting services to administrators of employee benefit plans.

T. Rowe Price Trust Company ("Trust Company"), a wholly-owned subsidiary of the Manager, is a Maryland chartered limited purpose trust company, organized in 1983 for the purpose of providing fiduciary services. The Trust Company serves as trustee/custodian for employee benefit plans, common trust funds and a few trusts.

T. Rowe Price Threshold Fund II, L.P., a Delaware limited partnership, was organized in 1986 by the Manager, and invests in private financings of small

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companies with high growth potential; the Manager is the General Partner of the partnership.

RPMI International Partners, Limited Partnership, is a Delaware limited partnership organized in 1985 for the purpose of investing in a diversified group of small and medium-sized rapidly growing non-U.S. companies. Price-Fleming is the general partner of this partnership, and certain clients of Price-Fleming are its limited partners.

T. Rowe Price Real Estate Group, Inc. ("Real Estate Group"), is a Maryland corporation and a wholly-owned subsidiary of the Manager established in 1986 to provide real estate services. Subsidiaries of Real Estate Group are: T. Rowe Price Realty Income Fund I Management, Inc., a Maryland corporation (General Partner of T. Rowe Price Realty Income Fund I, A No-Load Limited Partnership), T. Rowe Price Realty Income Fund II Management, Inc., a Maryland corporation (General Partner of T. Rowe Price Realty Income Fund II, America's Sales-Commission-Free Real Estate Limited Partnership), T. Rowe Price Realty Income Fund III Management, Inc., a Maryland corporation (General Partner of T. Rowe Price Realty Income Fund III, America's Sales-Commission-Free Real Estate Limited Partnership, a Delaware limited partnership), and T. Rowe Price Realty Income Fund IV Management, Inc., a Maryland corporation (General Partner of T. Rowe Price Realty Income Fund IV, America's

Sales-Commission-Free Real Estate Limited Partnership). Real Estate Group serves as investment manager to T. Rowe Price Renaissance Fund, Ltd., A Sales-Commission-Free Real Estate Investment, established in 1989 as a Maryland corporation which qualifies as a REIT.

T. Rowe Price Stable Asset Management, Inc. ("Stable Asset Management") is a Maryland corporation organized in 1988 as a wholly-owned subsidiary of the Manager. Stable Asset Management, which is registered as an investment adviser under the Investment Advisers Act of 1940, specializes in the management of investment portfolios which seek stable and consistent investment returns through the use of guaranteed investment contracts, bank investment contracts, structured or synthetic investment contracts, and short-term fixed-income securities.

T. Rowe Price Recovery Fund Associates, Inc., a Maryland corporation, is a wholly-owned subsidiary of the Manager organized in 1988 for the purpose of serving as the General Partner of T. Rowe Price Recovery Fund, L.P., a Delaware limited partnership which invests in financially distressed companies.

T. Rowe Price (Canada), Inc. is a Maryland corporation organized in 1988 as a wholly-owned subsidiary of the Manager. This entity is registered as an investment adviser under the Investment Advisers Act of 1940, and may apply for registration as an investment manager under the Securities Act of Ontario in order to be eligible to provide certain services to the RPF International Bond Fund, a trust (whose shares are sold in Canada) which Price-Fleming serves as investment adviser.

Since 1983, the Manager has organized several distinct Maryland limited partnerships, which are informally called the Pratt Street Ventures partnerships, for the purpose of acquiring interests in growth-oriented businesses.

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Tower Venture, Inc., a wholly-owned subsidiary of the Manager, is a Maryland corporation organized in 1989 for the purpose of serving as a general partner of 100 East Pratt St., L.P., a Maryland limited partnership whose limited partners also include the Manager. The purpose of the partnership is to further develop and improve the property at 100 East Pratt Street, the site of the Manager's headquarters, through the construction of additional office, retail and parking space.

TRP Suburban, Inc. is a Maryland corporation organized in 1990 as a wholly-owned subsidiary of the Manager. TRP Suburban has entered into agreements with McDonogh School and CMANE-McDonogh-Rowe Limited Partnership to construct an office building in Owings Mills, Maryland, which houses the Manager's transfer agent, plan administrative services, retirement plan services and operations support functions.

TRP Finance, Inc. and TRP Finance MRT, Inc., wholly-owned subsidiaries of the Manager, are Delaware corporations organized in 1990 to manage certain passive

corporate investments and other intangible assets. TRP Finance MRT, Inc. was dissolved on October 4, 1993.

T. Rowe Price Strategic Partners Fund, L.P. is a Delaware limited partnership organized in 1990 for the purpose of investing in small public and private companies seeking capital for expansion or undergoing a restructuring of ownership. The general partner of the Fund is T. Rowe Price Strategic Partners, L.P., a Delaware limited partnership whose general partner is T. Rowe Price Strategic Partners Associates, Inc., ("Strategic Associates"), a Maryland corporation which is a wholly-owned subsidiary of the Manager. Strategic Associates also serves as the general partner of T. Rowe Price Strategic Partners II, L.P., a Delaware limited partnership established in 1992, which in turn serves as general partner of T. Rowe Price Strategic Partners Fund II, L.P., a Delaware limited partnership organized in 1992.

Listed below are the directors of the Manager who have other substantial businesses, professions, vocations, or employment aside from that of Director of the Manager:

JAMES E. HALBKAT, JR., Director of the Manager. Mr. Halbkat is President of U.S. Monitor Corporation, a provider of public response systems. Mr. Halbkat's address is: P.O. Box 23109, Hilton Head Island, South Carolina 29925.

JOHN W. ROSENBLUM, Director of the Manager. Mr. Rosenblum is the Tayloe Murphy Professor at the University of Virginia, and a director of: Chesapeake Corporation, a manufacturer of paper products, Cadmus Communications Corp., a provider of printing and communication services; Comdial Corporation, a manufacturer of telephone systems for businesses; and Cone Mills Corporation, a textiles producer. Mr. Rosenblum's address is: P.O. Box 6550, Charlottesville, Virginia 22906.

ROBERT L. STRICKLAND, Director of the Manager. Mr. Strickland is Chairman of Lowe's Companies, Inc., a retailer of specialty home supplies. Mr. Strickland's address is 604 Two Piedmont Plaza Building, Winston-Salem, North Carolina 27104.

PHILIP C. WALSH, Director of the Manager. Mr. Walsh is a Consultant to Cyprus Amax Minerals Company, Englewood, Colorado, and a director of Piedmont Mining Company, Inc., Charlotte, North Carolina. Mr. Walsh's address is: Blue Mill Road, Morristown, New Jersey 07960.

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With the exception of Messrs. Halbkat, Rosenblum, Strickland, and Walsh, all of the directors of the Manager are employees of the Manager.

George J. Collins, who is Chief Executive Officer, President, and a Managing Director of the Manager, is a Director of Price-Fleming.

George A. Roche, who is Chief Financial Officer and a Managing Director of the

Manager, is a Vice President and a Director of Price-Fleming.

M. David Testa, who is a Managing Director of the Manager, is Chairman of the Board of Price-Fleming.

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Henry H. Hopkins, Charles P. Smith, and Peter Van Dyke, who are Managing Directors of the Manager, are Vice Presidents of Price-Fleming.

Robert P. Campbell, Roger L. Fiery, III, Robert C. Howe, Veena A. Kutler, George A. Murnaghan, William F. Wendler, II, and Edward A. Wiese, who are Vice Presidents of the Manager, are Vice Presidents of Price-Fleming.

Alvin M. Younger, Jr., who is a Managing Director and the Secretary and Treasurer of the Manager, is Secretary and Treasurer of Price-Fleming.

Nolan L. North, who is a Vice President and Assistant Treasurer of the Manager, is Assistant Treasurer of Price-Fleming.

Leah P. Holmes, who is an Assistant Vice President of the Manager, is a Vice President of Price-Fleming.

Barbara A. Van Horn, who is Assistant Secretary of the Manager, is Assistant Secretary of Price-Fleming.

Certain directors and officers of the Manager are also officers and/or directors of one or more of the Price Funds and/or one or more of the affiliated entities listed herein.

See also "Management of Fund," in Registrant's Statement of Additional Information.

Item 29. Principal Underwriters.

(a) The principal underwriter for the Registrant is Investment Services. Investment Services acts as the principal underwriter for the other thirty-six Price Funds. Investment Services, a wholly-owned subsidiary of the Manager, is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. Investment Services was formed for the limited purpose of distributing the shares of the Price Funds and will not engage in the general securities business. Since the Price Funds are sold on a no-load basis, Investment Services does not receive any commission or other compensation for acting as principal underwriter.

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(b) The address of each of the directors and officers of Investment

Services listed below is 100 East Pratt Street, Baltimore, Maryland 21202.

Name and Principal Business Address	Positions and Offices With Underwriter	Positions and Offices with Registrant
James Sellers Riepe	President and Director	Vice President and Trustee
Henry Holt Hopkins	Vice President and Director	Vice President
Mark E. Rayford	Director	None
Charles E. Vieth	Vice President and Director	None
Patricia M. Archer	Vice President	None
Edward C. Bernard	Vice President	None
Joseph C. Bonasorte	Vice President	None
Meredith C. Callanan	Vice President	None
Laura H. Chasney	Vice President	None
Victoria C. Collins	Vice President	None
Christopher W. Dyer	Vice President	None
Forrest R. Foss	Vice President	None
Patricia O'Neil Goodyear	Vice President	None
James W. Graves	Vice President	None
Andrea G. Griffin	Vice President	None
Thomas Grizzard	Vice President	None
David J. Healy	Vice President	None
Joseph P. Healy	Vice President	None
Walter J. Helmlinger	Vice President	None
Eric G. Knauss	Vice President	None
Douglas G. Kremer	Vice President	None
Sharon Renae Krieger	Vice President	None
Keith Wayne Lewis	Vice President	None
David L. Lyons	Vice President	None
Sarah McCafferty	Vice President	None
Maurice Albert Minerbi	Vice President	None
Nancy M. Morris	Vice President	None
George A. Murnaghan	Vice President	None
Steven Ellis Norwitz	Vice President	None
Kathleen M. O'Brien	Vice President	None
Charles S. Peterson	Vice President	None
Pamela D. Preston	Vice President	None
Lucy Beth Robins	Vice President	None
John Richard Rockwell	Vice President	None
Monica R. Tucker	Vice President	None
William F. Wendler, II	Vice President	None
Terri L. Westren	Vice President	None
Jane F. White	Vice President	None
Thomas R. Woolley	Vice President	None
Alvin M. Younger, Jr.	Secretary and Treasurer	None
Mark S. Finn	Controller	None

Catherine L.				
Berkenkemper	Assistant	Vice	President	None
Richard J. Barna	Assistant	Vice	President	None
Ronae M. Brock	Assistant	Vice	President	None
Brenda E. Buhler	Assistant	Vice	President	None
Patricia Sue Butcher	Assistant	Vice	President	None
John A. Galateria	Assistant	Vice	President	None
Janelyn A. Healey	Assistant	Vice	President	None

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Keith J. Langrehr	Assistant	Vice	President	None
C. Lillian Matthews	Assistant	Vice	President	None
Janice D. McCrory	Assistant	Vice	President	None
Sandra J. McHenry	Assistant	Vice	President	None
JeanneMarie B. Patella	Assistant	Vice	President	None
Kristin E. Seeberger	Assistant	Vice	President	None
Arthur J. Silber	Assistant	Vice	President	None
Linda C. Wright	Assistant	Vice	President	None
Nolan L. North	Assistant	Treasurer		None
Barbara A. VanHorn	Assistant	Secretary		None

(c) Not applicable. Investment Services will not receive any compensation with respect to its activities as underwriter for the Price Funds since the Price Funds are sold on a no-load basis.

Item 30. Location of Accounts and Records.

All accounts, books, and other documents required to be maintained by T. Rowe Price Personal Strategy Funds, Inc. under Section 31(a) of the Investment Company Act of 1940 and the rules thereunder will be maintained by T. Rowe Price Personal Strategy Funds, Inc. at its offices at 100 East Pratt Street, Baltimore, Maryland 21202. Transfer, dividend disbursing, and shareholder service activities are performed by T. Rowe Price Services, Inc. at 100 East Pratt Street, Baltimore, Maryland 21202. Custodian activities for T. Rowe Price Personal Strategy Funds, Inc. are performed at State Street Bank and Trust Company's Service Center (State Street South), 1776 Heritage Drive, Quincy, Massachusetts 02171.

Item 31. Management Services.

Registrant is not a party to any management-related service contract, other than as set forth in the Prospectus.

Item 32. Undertakings.

- a. The undersigned Registrant hereby undertakes to file an amendment to the Registration Statement with certified financial statements showing the initial capital received before accepting subscriptions from any persons in excess of 25 if it raises its initial capital pursuant to Section 14(a)(3) of the 1940 Act.

- b. The Registrant will file, within four to six months from the effective date of its registration statement, a post-effective amendment using financial statements which need not be certified.
- c. If requested to do so by the holders of at least 10% of all votes entitled to be cast, the Corporation will call a meeting of shareholders for the purpose of voting on the question of removal of a director or directors and will assist in communications with other shareholders to the extent required by Section 16(c).
- d. Each series of the Registrant agrees to furnish, upon request and free of charge, a copy of its latest Report to Shareholders to each person to whom its prospectus is delivered.

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Pursuant to the requirements of the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Baltimore, State of Maryland, this 17th day of May, 1994.

T. ROWE PRICE PERSONAL STRATEGY FUNDS, INC.

/s/James S. Riepe
 By: James S. Riepe
 Vice President and Director

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
_____	_____	_____
/s/James S. Riepe James S. Riepe	Vice President and Director	May 17, 1994
/s/Carmen F. Deyesu Carmen F. Deyesu	Treasurer (Chief Financial Officer)	May 17, 1994

T. ROWE PRICE PERSONAL STRATEGY FUNDS, INC.

ARTICLES OF INCORPORATION

FIRST: THE UNDERSIGNED, Henry H. Hopkins, whose address is 100 East Pratt Street, Baltimore, Maryland 21202, being at least eighteen years of age, acting as incorporator, does hereby form a corporation under the General Laws of the State of Maryland.

SECOND: (a) The name of the corporation (which is hereinafter called the "Corporation") is:

T. Rowe Price Personal Strategy Funds, Inc.

(b) The Corporation acknowledges that it is adopting its corporate name through permission of T. Rowe Price Associates, Inc., a Maryland corporation (hereinafter referred to as "Price Associates"), and acknowledges that Price Associates has the sole and exclusive right to use or license the use of the name "T. Rowe Price" in commerce. The Corporation agrees that if at any time and for any cause, the investment adviser or distributor of the Corporation ceases to be Price Associates or an affiliate of Price Associates, the Corporation shall at the written request of Price Associates take all requisite action to amend its charter to eliminate the name "T. Rowe Price" from the Corporation's corporate name and from the designations of its shares of capital stock. The Corporation further acknowledges that Price Associates reserves the right to grant the non-exclusive right to use the name "T. Rowe Price" to any other corporation, including other investment companies, whether now in existence or hereafter created.

THIRD: (a) The purposes for which the Corporation is formed and the business and objects to be carried on and promoted by it are:

(1) To engage generally in the business of investing, reinvesting, owning, holding or trading in securities, as defined in the Investment Company Act of 1940, as from time to time amended (hereinafter referred to as the "Investment Company Act"), as an investment company classified under the Investment Company Act as a management company.

(2) To engage in any one or more businesses or transactions, or to acquire all or any portion of any entity engaged in any one or more businesses or transactions, which the Board of Directors may from time to time authorize or approve, whether or not related to the business described elsewhere in this Article or to any other business at the time or theretofore engaged in by the Corporation.

(b) The foregoing enumerated purposes and objects shall be in no way limited or restricted by reference to, or inference from, the terms of any other clause of this or any other Article of the charter of the Corporation, and each shall be regarded as independent; and they are intended to be and shall be construed as powers as well as purposes and objects of the Corporation and shall be in addition to and not in limitation of the general powers of corporations under the General Laws of the State of Maryland.

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FOURTH: The present address of the principal office of the Corporation in this State is:

100 East Pratt Street
Baltimore, Maryland 21202

FIFTH: The name and address of the resident agent of the Corporation in this State are:

Henry H. Hopkins
100 East Pratt Street
Baltimore, Maryland 21202

Said resident agent is a citizen of the State of Maryland, and actually resides therein.

SIXTH: (a) The total number of shares of stock of all classes and series which the Corporation initially has authority to issue is One Billion (1,000,000,000) shares of capital stock (par value \$.0001 per share), amounting in aggregate par value to One Hundred Thousand Dollars (\$100,000). All of such shares are initially classified as "Common Stock" of the "T. Rowe Price Personal Strategy Balanced Fund, T. Rowe Price Personal Strategy Growth Fund, and T. Rowe Price Personal Strategy Income Fund" series. Each such series shall consist, until further changed, of the lesser of (x) 1,000,000,000 shares or (y) the number of shares that could be issued by issuing all of the shares of any series currently or hereafter classified less the total number of shares then issued and outstanding in all of such series. The Board of Directors may classify and reclassify any unissued shares of capital stock (whether or not such shares have been previously classified or reclassified) by setting or changing in any one or more respects the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption of such shares of stock.

(b) The following is a description of the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption of the shares of Common Stock classified as the "T. Rowe Price Personal Strategy Balanced Fund, T. Rowe Price Personal Strategy Growth Fund, and T. Rowe Price Personal Strategy Income Fund" series and any additional series of Common Stock of the

Corporation (unless provided otherwise by the Board of Directors with respect to any such additional series at the time it is established and designated):

(1) Assets Belonging to Series. All consideration received by the Corporation from the issue or sale of shares of a particular series, together with all assets in which such consideration is invested or reinvested, all income, earnings, profits and proceeds thereof, including any proceeds derived from the sale, exchange or liquidation of such assets, and any funds or payments derived from any investment or reinvestment of such proceeds in whatever form the same may be, shall irrevocably belong to that series for all purposes, subject only to the rights of creditors, and shall be so recorded upon the books of account of the Corporation. Such consideration, assets, income, earnings, profits and proceeds, together with any General Items allocated to that series as provided in the following sentence, are herein referred to collectively as "assets belonging to" that series. In the event that there are any assets, income, earnings, profits or proceeds which are not readily identifiable as belonging to any particular series (collectively, "General Items"), such General Items shall be allocated by or under the supervision of the Board of Directors to and among any one or more of the series established and designated from time to time in such manner and on such basis as the Board of Directors, in its sole

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discretion, deems fair and equitable; and any General Items so allocated to a particular series shall belong to that series. Each such allocation by the Board of Directors shall be conclusive and binding for all purposes.

(2) Liabilities of Series. The assets belonging to each particular series shall be charged with the liabilities of the Corporation in respect of that series and all expenses, costs, charges and reserves attributable to that series, and any general liabilities, expenses, costs, charges or reserves of the Corporation which are not readily identifiable as pertaining to any particular series, shall be allocated and charged by or under the supervision of the Board of Directors to and among any one or more of the series established and designated from time to time in such manner and on such basis as the Board of Directors, in its sole discretion, deems fair and equitable. The liabilities, expenses, costs, charges and reserves allocated and so charged to a series are herein referred to collectively as "liabilities of" that series. Each allocation of liabilities, expenses, costs, charges and reserves by or under the supervision of the Board of Directors shall be conclusive and binding for all purposes.

(3) Dividends and Distributions. Dividends and capital gains distributions on shares of a particular series may be paid with such frequency, in such form and in such amount as the Board of Directors may determine by resolution adopted from time to time, or pursuant to a

standing resolution or resolutions adopted only once or with such frequency as the Board of Directors may determine, after providing for actual and accrued liabilities of that series. All dividends on shares of a particular series shall be paid only out of the income belonging to that series and all capital gains distributions on shares of a particular series shall be paid only out of the capital gains belonging to that series. All dividends and distributions on shares of a particular series shall be distributed pro rata to the holders of that series in proportion to the number of shares of that series held by such holders at the date and time of record established for the payment of such dividends or distributions, except that in connection with any dividend or distribution program or procedure, the Board of Directors may determine that no dividend or distribution shall be payable on shares as to which the shareholder's purchase order and/or payment have not been received by the time or times established by the Board of Directors under such program or procedure.

Dividends and distributions may be paid in cash, property or additional shares of the same or another series, or a combination thereof, as determined by the Board of Directors or pursuant to any program that the Board of Directors may have in effect at the time for the election by shareholders of the form in which dividends or distributions are to be paid. Any such dividend or distribution paid in shares shall be paid at the current net asset value thereof.

(4) Voting. On each matter submitted to a vote of the shareholders, each holder of shares shall be entitled to one vote for each share standing in his name on the books of the Corporation, irrespective of the series thereof, and all shares of all series shall vote as a single class ("Single Class Voting"); provided, however, that (i) as to any matter with respect to which a separate vote of any series is required by the Investment Company Act or by the Maryland General Corporation Law, such requirement as to a separate vote by that series shall apply in lieu of Single Class Voting; (ii) in the event that the separate vote requirement referred to in (i) above applies with respect to one or more series, then, subject to (iii) below, the shares of all

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other series shall vote as a single class; and (iii) as to any matter which does not affect the interest of a particular series, including liquidation of another series as described in subsection (7) below, only the holders of shares of the one or more affected series shall be entitled to vote.

(5) Redemption by Shareholders. Each holder of shares of a particular series shall have the right at such times as may be permitted by the Corporation to require the Corporation to redeem all or any part of his shares of that series, at a redemption price per share equal to

the net asset value per share of that series next determined after the shares are properly tendered for redemption, less such redemption fee or sales charge, if any, as may be established by the Board of Directors in its sole discretion. Payment of the redemption price shall be in cash; provided, however, that if the Board of Directors determines, which determination shall be conclusive, that conditions exist which make payment wholly in cash unwise or undesirable, the Corporation may, to the extent and in the manner permitted by the Investment Company Act, make payment wholly or partly in securities or other assets belonging to the series of which the shares being redeemed are a part, at the value of such securities or assets used in such determination of net asset value.

Notwithstanding the foregoing, the Corporation may postpone payment of the redemption price and may suspend the right of the holders of shares of any series to require the Corporation to redeem shares of that series during any period or at any time when and to the extent permissible under the Investment Company Act.

(6) Redemption by Corporation. The Board of Directors may cause the Corporation to redeem at net asset value the shares of any series from a holder (i) if the Board of Directors of the Corporation determines in its sole discretion that failure to so redeem such shares may have materially adverse consequences to the holders of shares of the Corporation or any series, or (ii) upon such other conditions with respect to the maintenance of shareholder accounts of a minimum amount as may from time to time be established by the Board of Directors in its sole discretion.

(7) Liquidation. In the event of the liquidation of a particular series, the shareholders of the series that is being liquidated shall be entitled to receive, as a class, when and as declared by the Board of Directors, the excess of the assets belonging to that series over the liabilities of that series. The holders of shares of any particular series shall not be entitled thereby to any distribution upon liquidation of any other series. The assets so distributable to the shareholders of any particular series shall be distributed among such shareholders in proportion to the number of shares of that series held by them and recorded on the books of the Corporation. The liquidation of any particular series in which there are shares then outstanding may be authorized by vote of a majority of the Board of Directors then in office, subject to the approval of a majority of the outstanding voting securities of that series, as defined in the Investment Company Act, and without the vote of the holders of shares of any other series. The liquidation of a particular series may be accomplished, in whole or in part, by the transfer of assets of such series to another series or by the exchange of shares of such series for the shares of another series.

(8) Net Asset Value Per Share. The net asset value per share of any series shall be the quotient obtained by dividing the value of the net assets of that series (being the value of the assets belonging to that series less the liabilities of that series) by the total number of shares of that series outstanding, all as determined by or under the direction of the Board of Directors in accordance with generally accepted accounting principles and the Investment Company Act. Subject to the applicable provisions of the Investment Company Act, the Board of Directors, in its sole discretion, may prescribe and shall set forth in the By-Laws of the Corporation or in a duly adopted resolution of the Board of Directors such bases and times for determining the value of the assets belonging to, and the net asset value per share of outstanding shares of, each series, or the net income attributable to such shares, as the Board of Directors deems necessary or desirable. The Board of Directors shall have full discretion, to the extent not inconsistent with the Maryland General Corporation Law and the Investment Company Act, to determine which items shall be treated as income and which items as capital and whether any item of expense shall be charged to income or capital. Each such determination and allocation shall be conclusive and binding for all purposes.

The Board of Directors may determine to maintain the net asset value per share of any series at a designated constant dollar amount and in connection therewith may adopt procedures not inconsistent with the Investment Company Act for the continuing declaration of income attributable to that series as dividends and for the handling of any losses attributable to that series. Such procedures may provide that in the event of any loss, each shareholder shall be deemed to have contributed to the capital of the Corporation attributable to that series his pro rata portion of the total number of shares required to be canceled in order to permit the net asset value per share of that series to be maintained, after reflecting such loss, at the designated constant dollar amount. Each shareholder of the Corporation shall be deemed to have agreed, by his investment in any series with respect to which the Board of Directors shall have adopted any such procedure, to make the contribution referred to in the preceding sentence in the event of any such loss.

(9) Equality. All shares of each particular series shall represent an equal proportionate interest in the assets belonging to that series (subject to the liabilities of that series), and each share of any particular series shall be equal to each other share of that series. The Board of Directors may from time to time divide or combine the shares of any particular series into a greater or lesser number of shares of that series without thereby changing the proportionate interest in the assets belonging to that series or in any way affecting the rights of holders of shares of any other series.

(10) Conversion or Exchange Rights. Subject to compliance with the requirements of the Investment Company Act, the Board of Directors

shall have the authority to provide that holders of shares of any series shall have the right to convert or exchange said shares into shares of one or more other classes or series of shares in accordance with such requirements and procedures as may be established by the Board of Directors.

(c) The shares of Common Stock of the Corporation, or of any series of Common Stock of the Corporation to the extent such Common Stock is divided into series, may be further subdivided into classes (which may, for convenience of reference be referred to a term other than "class"). Unless otherwise provided in the Articles Supplementary establishing such classes, all such shares, or all shares of a series of Common Stock in a series, shall

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have identical voting, dividend, and liquidation rights. Shares of the classes shall also be subject to such front-end sales loads, contingent deferred sales charges, expenses (including, without limitation, distribution expenses under a Rule 12b-1 plan and administrative expenses under an administration or service agreement, plan or other arrangement, however designated), conversion rights, and class voting rights as shall be consistent with Maryland law, the Investment Company Act of 1940, and the rules and regulations of the National Association of Securities Dealers and shall be contained in Articles Supplementary establishing such classes.

(d) For the purposes hereof and of any articles supplementary to the charter providing for the classification or reclassification of any shares of capital stock or of any other charter document of the Corporation (unless otherwise provided in any such articles or document), any class or series of stock of the Corporation shall be deemed to rank:

(1) prior to another class or series either as to dividends or upon liquidation, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable on liquidation, dissolution or winding up, as the case may be, in preference or priority to holders of such other class or series;

(2) on a parity with another class or series either as to dividends or upon liquidation, whether or not the dividend rates, dividend payment dates or redemption or liquidation price per share thereof be different from those of such others, if the holders of such class or series of stock shall be entitled to receipt of dividends or amounts distributable upon liquidation, dissolution or winding up, as the case may be, in proportion to their respective dividend rates or redemption or liquidation prices, without preference or priority over the holders of such other class or series; and

(3) junior to another class or series either as to dividends or upon liquidation, if the rights of the holders of such class or series shall be subject or subordinate to the rights of the holders of such other class or series in respect of the receipt of dividends or the

amounts distributable upon liquidation, dissolution or winding up, as the case may be.

(e) Unless otherwise prohibited by law, so long as the Corporation is registered as an open-end management investment company under the Investment Company Act, the Board of Directors shall have the power and authority, without the approval of the holders of any outstanding shares, to increase or decrease the number of shares of capital stock or the number of shares of capital stock of any class or series that the Corporation has authority to issue.

(f) The Corporation may issue and sell fractions of shares of capital stock having pro rata all the rights of full shares, including, without limitation, the right to vote and to receive dividends, and wherever the words "share" or "shares" are used in the charter or By-Laws of the Corporation, they shall be deemed to include fractions of shares, where the context does not clearly indicate that only full shares are intended.

(g) The Corporation shall not be obligated to issue certificates representing shares of any class or series of capital stock. At the time of issue or transfer of shares without certificates, the Corporation shall provide the shareholder with such information as may be required under the Maryland General Corporation Law.

SEVENTH: The number of directors of the Corporation shall initially be one (1), which number may be increased or decreased pursuant to the By-Laws of

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the Corporation, but shall never be less than the minimum number permitted by the General Laws of the State of Maryland now or hereafter in force. James S. Riepe shall serve as director until the first annual meeting and until his successor is elected and qualified.

EIGHTH: (a) The following provisions are hereby adopted for the purpose of defining, limiting, and regulating the powers of the Corporation and of the directors and shareholders:

(1) The Board of Directors is hereby empowered to authorize the issuance from time to time of shares of its stock of any class or series, whether now or hereafter authorized, or securities convertible into shares of its stock of any class or series, whether now or hereafter authorized, for such consideration as may be deemed advisable by the Board of Directors and without any action by the shareholders.

(2) No holder of any stock or any other securities of the Corporation, whether now or hereafter authorized, shall have any preemptive right to subscribe for or purchase any stock or any other securities of the Corporation other than such, if any, as the Board of Directors, in its sole discretion, may determine and at such price or prices and upon such other terms as the Board of Directors, in its sole

discretion, may fix; and any stock or other securities which the Board of Directors may determine to offer for subscription may, as the Board of Directors in its sole discretion shall determine, be offered to the holders of any class, series or type of stock or other securities at the time outstanding to the exclusion of the holders of any or all other classes, series or types of stock or other securities at the time outstanding.

(3) The Board of Directors of the Corporation shall, consistent with applicable law, have power in its sole discretion to determine from time to time in accordance with sound accounting practice or other reasonable valuation methods what constitutes annual or other net profits, earnings, surplus, or net assets in excess of capital; to determine that retained earnings or surplus shall remain in the hands of the Corporation; to set apart out of any funds of the Corporation such reserve or reserves in such amount or amounts and for such proper purpose or purposes as it shall determine and to abolish any such reserve or any part thereof; to distribute and pay distributions or dividends in stock, cash or other securities or property, out of surplus or any other funds or amounts legally available therefor, at such times and to the shareholders of record on such dates as it may, from time to time, determine; and to determine whether and to what extent and at what times and places and under what conditions and regulations the books, accounts and documents of the Corporation, or any of them, shall be open to the inspection of shareholders, except as otherwise provided by statute or by the By-Laws, and, except as so provided, no shareholder shall have any right to inspect any book, account or document of the Corporation unless authorized so to do by resolution of the Board of Directors.

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(4) Notwithstanding any provision of law requiring the authorization of any action by a greater proportion than a majority of the total number of shares of all classes and series of capital stock or of the total number of shares of any class or series of capital stock entitled to vote as a separate class, such action shall be valid and effective if authorized by the affirmative vote of the holders of a majority of the total number of shares of all classes and series outstanding and entitled to vote thereon, or of the class or series entitled to vote thereon as a separate class, as the case may be, except as otherwise provided in the charter of the Corporation.

(5) The Corporation shall indemnify (i) its past and present directors and officers, whether serving the Corporation or at its request any other entity, to the full extent required or permitted by the General Laws of the State of Maryland now or hereafter in force, including the advance of expenses under the procedures and to the full extent permitted by law, and (ii) other employees and agents to such extent as shall be authorized by the Board of Directors or the By-Laws and as permitted by law. Nothing contained herein shall be construed to

protect any director or officer of the Corporation against any liability to the Corporation or its security holders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his office. The foregoing rights of indemnification shall not be exclusive of any other rights to which those seeking indemnification may be entitled. The Board of Directors may take such action as is necessary to carry out these indemnification provisions and is expressly empowered to adopt, approve and amend from time to time such by-laws, resolutions or contracts implementing such provisions or such further indemnification arrangements as may be permitted by law. No amendment of the charter of the Corporation or repeal of any of its provisions shall limit or eliminate the right of indemnification provided hereunder with respect to acts or omissions occurring prior to such amendment or repeal.

(6) To the fullest extent permitted by Maryland statutory or decisional law, as amended or interpreted, and the Investment Company Act, no director or officer of the Corporation shall be personally liable to the Corporation or its shareholders for money damages; provided, however, that nothing herein shall be construed to protect any director or officer of the Corporation against any liability to the Corporation or its security holders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his office. No amendment of the charter of the Corporation or repeal of any of its provisions shall limit or eliminate the limitation of liability provided to directors and officers hereunder with respect to any act or omission occurring prior to such amendment or repeal.

(7) The Corporation reserves the right from time to time to make any amendments of its charter which may now or hereafter be authorized by law, including any amendments changing the terms or contract rights, as expressly set forth in its charter, of any of its outstanding stock by classification, reclassification or otherwise.

(b) The enumeration and definition of particular powers of the Board of Directors included in the foregoing shall in no way be limited or restricted by reference to or inference from the terms of any other clause of this or any other Article of the charter of the Corporation, or construed as or deemed by inference or otherwise in any manner to exclude or limit any powers conferred upon the Board of Directors under the General Laws of the State of Maryland now or hereafter in force.

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NINTH: The duration of the Corporation shall be perpetual.

IN WITNESS WHEREOF, I have signed these Articles of Incorporation, acknowledging the same to be my act, on this 12th day of May, 1994.

Witness:

/s/Jean Marie Jungblut

/s/Henry H. Hopkins

Henry H. Hopkins

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ARTICLES OF INCORPORATION

OF

T. ROWE PRICE PERSONAL STRATEGY FUNDS, INC.

T. ROWE PRICE PERSONAL STRATEGY FUNDS, INC.

(A Maryland Corporation)

BY-LAWS

ARTICLE I

NAME OF CORPORATION,
LOCATION OF OFFICES AND SEAL

Section 1.01.Name: The name of the Corporation is T. ROWE PRICE PERSONAL STRATEGY FUNDS, INC.

Section 1.02.Principal Office: The principal office of the Corporation in the State of Maryland shall be located in the City of Baltimore. The Corporation may, in addition, establish and maintain such other offices and places of business, within or outside the State of Maryland, as the Board of Directors may from time to time determine. [MGCL, Sections 2-103(4), 2-108(a)(1)]

Section 1.03.Seal: The corporate seal of the Corporation shall be circular in form, and shall bear the name of the Corporation, the year of its incorporation, and the words "Corporate Seal, Maryland." The form of the seal shall be subject to alteration by the Board of Directors and the seal may be used by causing it or a facsimile to be impressed or affixed or printed or otherwise reproduced. In lieu of affixing the corporate seal to any document it shall be sufficient to meet the requirements of any law, rule, or regulation relating to a corporate seal to affix the word "(Seal)" adjacent to the signature of the authorized officer of the Corporation. Any officer or Director of the Corporation shall have authority to affix the corporate seal of the Corporation to any document requiring the same. [MGCL, Sections 1-304(b), 2-103(3)]

ARTICLE II

SHAREHOLDERS

Section 2.01.Annual Meetings: The Corporation shall not be required to hold an annual meeting of its shareholders in any year unless the Investment Company Act of 1940 requires an election of directors by shareholders. In the

event that the Corporation shall be so required to hold an annual meeting, such meeting shall be held at a date and time set by the Board of Directors, which date shall be no later than 120 days after the occurrence of the event

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requiring the meeting. Any shareholders' meeting held in accordance with the preceding sentence shall for all purposes constitute the annual meeting of shareholders for the fiscal year of the corporation in which the meeting is held. At any such meeting, the shareholders shall elect directors to hold the offices of any directors who have held office for more than one year or who have been elected by the Board of Directors to fill vacancies which result from any cause. Except as the Articles of Incorporation or statute provides otherwise, Directors may transact any business within the powers of the Corporation as may properly come before the meeting. Any business of the Corporation may be transacted at the annual meeting without being specially designated in the notice, except such business as is specifically required by statute to be stated in the notice. [MGCL, Section 2-501]

Section 2.02.Special Meetings: Special meetings of the shareholders may be called at any time by the Chairman of the Board, the President, any Vice President, or by the Board of Directors. Special meetings of the shareholders shall be called by the Secretary on the written request of shareholders entitled to cast at least ten (10) percent of all the votes entitled to be cast at such meeting, provided that (a) such request shall state the purpose or purposes of the meeting and the matters proposed to be acted on, and (b) the shareholders requesting the meeting shall have paid to the Corporation the reasonably estimated cost of preparing and mailing the notice thereof, which the Secretary shall determine and specify to such shareholders. Unless requested by shareholders entitled to cast a majority of all the votes entitled to be cast at the meeting, a special meeting need not be called to consider any matter which is substantially the same as a matter voted upon at any special meeting of the shareholders held during the preceding twelve (12) months. [MGCL, Section 2-502]

Section 2.03.Place of Meetings: All shareholders' meetings shall be held at such place within the United States as may be fixed from time to time by the Board of Directors. [MGCL, Section 2-503]

Section 2.04.Notice of Meetings: Not less than ten (10) days, nor more than ninety (90) days before each shareholders' meeting, the Secretary or an Assistant Secretary of the Corporation shall give to each shareholder entitled to vote at the meeting, and each other shareholder entitled to notice of the meeting, written notice stating (1) the time and place of the meeting, and (2) the purpose or purposes of the meeting if the meeting is a special meeting or if notice of the purpose is required by statute to be given. Such notice shall be personally delivered to the shareholder, or left at his residence or usual place of business, or mailed to him at his address as it appears on the records of the Corporation. Notice shall be deemed to be given when deposited in the United States mail addressed to the shareholders as aforesaid. No

notice of a shareholders' meeting need be given to any shareholder who shall sign a written waiver of such notice, whether before or after the meeting, which is filed with the records of shareholders' meetings, or to any shareholder who is present at the meeting in person or by proxy. Notice of adjournment of a shareholders' meeting to another time or place need not be given if such time and place are announced at the meeting, unless the adjournment is for more than one hundred twenty (120) days after the original record date. Irregularities in the notice of any meeting to, or the nonreceipt of any such notice by, any of the stockholders shall not invalidate any action otherwise properly taken by or at any such meeting. [MGCL, Sections 2-504, 2-511(d)]

Section 2.05.Voting - In General: Except as otherwise specifically provided in the Articles of Incorporation or these By-Laws, or as required by provisions of the Investment Company Act with respect to the vote of a series, if any, of the Corporation, at every shareholders' meeting, each shareholder shall be entitled to one vote for each share of stock of the Corporation

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validly issued and outstanding and held by such shareholder, except that no shares held by the Corporation shall be entitled to a vote. Fractional shares shall be entitled to fractional votes. Except as otherwise specifically provided in the Articles of Incorporation, or these By-Laws, or as required by provisions of the Investment Company Act, a majority of all the votes cast at a meeting at which a quorum is present is sufficient to approve any matter which properly comes before the meeting. The vote upon any question shall be by ballot whenever requested by any person entitled to vote, but, unless such a request is made, voting may be conducted in any way approved by the meeting. [MGCL, Sections 2-214(a) (i), 2-506(a) (2), 2-507(a), 2-509(b)]

At any meeting at which there is an election of Directors, the Chairman of the meeting may, and upon the request of the holders of ten (10) percent of the stock entitled to vote at such election shall, appoint two inspectors of election who shall first subscribe an oath or affirmation to execute faithfully the duties of inspectors at such election with strict impartiality and according to the best of their ability, and shall, after the election, make a certificate of the result of the vote taken. No candidate for the office of Director shall be appointed as an inspector.

Section 2.06.Shareholders Entitled to Vote: If, pursuant to Section 8.05 hereof, a record date has been fixed for the determination of shareholders entitled to notice of or to vote at any shareholders' meeting, each shareholder of the Corporation shall be entitled to vote in person or by proxy, each share or fraction of a share of stock outstanding in his name on the books of the Corporation on such record date. If no record date has been fixed for the determination of shareholders, the record date for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day on which notice of the meeting is mailed or the 30th day before the meeting, whichever is the closer date to the meeting, or, if notice is waived by all shareholders, at

the close of business on the tenth (10th) day next preceding the date of the meeting. [MGCL, Sections 2-507, 2-511]

Section 2.07.Voting - Proxies: The right to vote by proxy shall exist only if the instrument authorizing such proxy to act shall have been executed in writing by the shareholder himself, or by his attorney thereunto duly authorized in writing. No proxy shall be valid more than eleven (11) months after its date unless it provides for a longer period. All proxies shall be delivered to the Secretary of the Corporation or to the person acting as Secretary of the meeting before being voted, who shall decide all questions concerning qualification of voters, the validity of proxies, and the acceptance or rejection of votes. If inspectors of election have been appointed by the chairman of the meeting, such inspectors shall decide all such questions. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by one of them unless at or prior to exercise of such proxy the Corporation receives a specific written notice to the contrary from any one of them. A proxy purporting to be executed by or on behalf of a shareholder shall be deemed valid unless challenged at or prior to its exercise. [MGCL, Section 2-507(b)]

Section 2.08.Quorum: The presence at any shareholders' meeting, in person or by proxy, of shareholders entitled to cast a majority of the votes entitled to be cast at the meeting shall constitute a quorum. [MGCL, Section 2-506(a)]

Section 2.09.Absence of Quorum: In the absence of a quorum, the holders of a majority of shares entitled to vote at the meeting and present thereat in person or by proxy, or, if no shareholder entitled to vote is present in person or by proxy, any officer present who is entitled to preside at or act as Secretary of such meeting, may adjourn the meeting sine die or from time to time. Any business that might have been transacted at the meeting originally

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called may be transacted at any such adjourned meeting at which a quorum is present.

Section 2.10.Stock Ledger and List of Shareholders: It shall be the duty of the Secretary or Assistant Secretary of the Corporation to cause an original or duplicate stock ledger to be maintained at the office of the Corporation's transfer agent, containing the names and addresses of all shareholders and the number of shares of each class held by each shareholder. Such stock ledger may be in written form, or any other form capable of being converted into written form within a reasonable time for visual inspection. Any one or more persons, who together are and for at least six (6) months have been shareholders of record of at least five percent (5%) of the outstanding capital stock of the Corporation, may submit (unless the Corporation at the time of the request maintains a duplicate stock ledger at its principal office) a written request to any officer of the Corporation or its resident agent in Maryland for a list of the shareholders of the Corporation. Within twenty (20) days after such a request, there shall be prepared and filed at

the Corporation's principal office a list, verified under oath by an officer of the Corporation or by its stock transfer agent or registrar, which sets forth the name and address of each shareholder and the number of shares of each class which the shareholder holds. [MGCL, Sections 2-209, 2-513]

Section 2.11.Informal Action By Shareholders: Any action required or permitted to be taken at a meeting of shareholders may be taken without a meeting if the following are filed with the records of shareholders' meetings:

- (a) A unanimous written consent which sets forth the action and is signed by each shareholder entitled to vote on the matter; and
- (b) A written waiver of any right to dissent signed by each shareholder entitled to notice of the meeting, but not entitled to vote at it.

[MGCL, Section 2-505]

ARTICLE III

BOARD OF DIRECTORS

Section 3.01.Number and Term of Office: The Board of Directors shall consist of one (1) Director, which number may be increased by a resolution of a majority of the entire Board of Directors, provided that the number of Directors shall not be more than fifteen (15) nor less than the lesser of (i) three (3) or (ii) the number of shareholders of the Corporation. Each Director (whenever elected) shall hold office until the next annual meeting of shareholders and until his successor is elected and qualifies or until his earlier death, resignation, or removal. [MGCL, Sections 2-402, 2-404, 2-405]

Section 3.02.Qualification of Directors: No member of the Board of Directors need be a shareholder of the Corporation, but at least one member of the Board of Directors shall be a person who is not an interested person (as such term is defined in the Investment Company Act) of the investment adviser of the Corporation, nor an officer or employee of the Corporation. [MGCL, Section 2-403; Investment Company Act, Section 10(d)]

Section 3.03.Election of Directors: Until the first annual meeting of shareholders, or until successors are duly elected and qualified, the Board of Directors shall consist of the persons named as such in the Articles of Incorporation. Thereafter, except as otherwise provided in Sections 3.04 and

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3.05 hereof, at each annual meeting, the shareholders shall elect Directors to hold office until the next annual meeting and/or until their successors are elected and qualify. In the event that Directors are not elected at an annual

shareholders' meeting, then Directors may be elected at a special shareholders' meeting. Directors shall be elected by vote of the holders of a plurality of the shares present in person or by proxy and entitled to vote. [MGCL, Section 2-404]

Section 3.04. Removal of Directors: At any meeting of shareholders, duly called and at which a quorum is present, the shareholders may, by the affirmative vote of the holders of a majority of the votes entitled to be cast thereon, remove any Director or Directors from office, either with or without cause, and may elect a successor or successors to fill any resulting vacancies for the unexpired terms of removed Directors. [MGCL, Sections 2-406, 2-407]

Section 3.05. Vacancies and Newly Created Directorships: If any vacancies occur in the Board of Directors by reason of resignation, removal or otherwise, or if the authorized number of Directors is increased, the Directors then in office shall continue to act, and such vacancies (if not previously filled by the shareholders) may be filled by a majority of the Directors then in office, whether or not sufficient to constitute a quorum, provided that, immediately after filling such vacancy, at least two-thirds of the Directors then holding office shall have been elected to such office by the shareholders of the Corporation. In the event that at any time, other than the time preceding the first meeting of shareholders, less than a majority of the Directors of the Corporation holding office at that time were so elected by the shareholders, a meeting of the shareholders shall be held promptly and in any event within sixty (60) days for the purpose of electing Directors to fill any existing vacancies in the Board of Directors unless the Securities and Exchange Commission shall by order extend such period. Except as provided in Section 3.04 hereof, a Director elected by the Board of Directors to fill a vacancy shall be elected to hold office until the next annual meeting of shareholders or until his successor is elected and qualifies. [MGCL, Section 2-407; Investment Company Act, Section 16(a)]

Section 3.06. General Powers:

(a) The property, business, and affairs of the Corporation shall be managed under the direction of the Board of Directors which may exercise all the powers of the Corporation except such as are by law, by the Articles of Incorporation, or by these By-Laws conferred upon or reserved to the shareholders of the Corporation. [MGCL, Section 2-401]

(b) All acts done by any meeting of the Directors or by any person acting as a Director, so long as his successor shall not have been duly elected or appointed, shall, notwithstanding that it be afterwards discovered that there was some defect in the election of the Directors or such person acting as a Director or that they or any of them were disqualified, be as valid as if the Directors or such person, as the case may be, had been duly elected and were or was qualified to be Directors or a Director of the Corporation.

Section 3.07. Power to Issue and Sell Stock: The Board of Directors may from time to time authorize by resolution the issuance and sale of any of the

Corporation's authorized shares to such persons as the Board of Directors shall deem advisable and such resolution shall set the minimum price or value of consideration for the stock or a formula for its determination, and shall include a fair description of any consideration other than money and a statement of the actual value of such consideration as determined by the Board of Directors or a statement that the Board of Directors has determined that the actual value is or will be not less than a certain sum. [MGCL, Section 2-203]

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Section 3.08.Power to Declare Dividends:

(a) The Board of Directors, from time to time as it may deem advisable, may declare and the Corporation pay dividends, in cash, property, or shares of the Corporation available for dividends out of any source available for dividends, to the shareholders according to their respective rights and interests. [MGCL, Section 2-309]

(b) The Board of Directors shall cause to be accompanied by a written statement any dividend payment wholly or partly from any source other than the Corporation's accumulated undistributed net income (determined in accordance with good accounting practice and the rules and regulations of the Securities and Exchange Commission then in effect) not including profits or losses realized upon the sale of securities or other properties. Such statement shall adequately disclose the source or sources of such payment and the basis of calculation and shall be otherwise in such form as the Securities and Exchange Commission may prescribe. [Investment Company Act, Section 19; SEC Rule 19a-1; MGCL, Section 2-309(c)]

(c) Notwithstanding the above provisions of this Section 3.08, the Board of Directors may at any time declare and distribute pro rata among the shareholders a stock dividend out of the Corporation's authorized but unissued shares of stock, including any shares previously purchased by the Corporation, provided that such dividend shall not be distributed in shares of any class with respect to any shares of a different class. The shares so distributed shall be issued at the par value thereof, and there shall be transferred to stated capital, at the time such dividend is paid, an amount of surplus equal to the aggregate par value of the shares issued as a dividend and there may be transferred from earned surplus to capital surplus such additional amount as the Board of Directors may determine. [MGCL, Section 2-309]

Section 3.09.Annual and Regular Meetings: The annual meeting of the Board of Directors for choosing officers and transacting other proper business shall be held after the annual shareholders' meeting at such time and place as may be specified in the notice of such meeting of the Board of Directors or, in the absence of such annual shareholders' meeting, at such time and place as the Board of Directors may provide. The Board of Directors from time to time may provide by resolution for the holding of regular meetings and fix their

time and place (within or outside the State of Maryland). [MGCL, Section 2-409(a)]

Section 3.10.Special Meetings: Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board, the President (or, in the absence or disability of the President, by any Vice President), the Treasurer, or two or more Directors, at the time and place (within or outside the State of Maryland) specified in the respective notices or waivers of notice of such meetings.

Section 3.11.Notice: Notice of annual, regular, and special meetings shall be in writing, stating the time and place, and shall be mailed to each Director at his residence or regular place of business or caused to be delivered to him personally or to be transmitted to him by telegraph, cable, or wireless at least two (2) days before the day on which the meeting is to be held. Except as otherwise required by the By-Laws or the Investment Company Act, such notice need not include a statement of the business to be transacted at, or the purpose of, the meeting. [MGCL, Section 2-409(b)]

Section 3.12.Waiver of Notice: No notice of any meeting need be given to any Director who is present at the meeting or to any Director who signs a waiver of the notice of the meeting (which waiver shall be filed with the

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records of the meeting), whether before or after the meeting. [MGCL, Section 2-409(c)]

Section 3.13.Quorum and Voting: At all meetings of the Board of Directors the presence of one-third of the total number of Directors authorized, but not less than two (2) Directors if there are at least two directors, shall constitute a quorum. In the absence of a quorum, a majority of the Directors present may adjourn the meeting, from time to time, until a quorum shall be present. The action of a majority of the Directors present at a meeting at which a quorum is present shall be the action of the Board of Directors unless the concurrence of a greater proportion is required for such action by law, by the Articles of Incorporation or by these By-Laws. [MGCL, Section 2-408]

Section 3.14.Conference Telephone: Members of the Board of Directors or of any committee designated by the Board, may participate in a meeting of the Board or of such committee by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time, and participation by such means shall constitute presence in person at such meeting. [MGCL, Section 2-409(d)]

Section 3.15.Compensation: Each Director may receive such remuneration for his services as shall be fixed from time to time by resolution of the Board of Directors.

Section 3.16.Action Without a Meeting: Except as otherwise provided under the Investment Company Act, any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting if a unanimous written consent which sets forth the action is signed by all members of the Board or of such committee and such written consent is filed with the minutes of proceedings of the Board or committee. [MGCL, Section 2-408(c)]

Section 3.17.Director Emeritus: Upon the retirement of a Director of the Corporation, the Board of Directors may designate such retired Director as a Director Emeritus. The position of Director Emeritus shall be honorary only and shall not confer upon such Director Emeritus any responsibility, or voting authority, whatsoever with respect to the Corporation. A Director Emeritus may, but shall not be required to, attend the meetings of the Board of Directors and receive materials normally provided Directors relating to the Corporation. The Board of Directors may establish such compensation as it may deem appropriate under the circumstances to be paid by the Corporation to a Director Emeritus.

ARTICLE IV

EXECUTIVE COMMITTEE AND OTHER COMMITTEES

Section 4.01.How Constituted: By resolution adopted by the Board of Directors, the Board may appoint from among its members one or more committees, including an Executive Committee, each consisting of at least two (2) Directors. Each member of a committee shall hold office during the pleasure of the Board. [MGCL, Section 2-411]

Section 4.02.Powers of the Executive Committee: Unless otherwise provided by resolution of the Board of Directors, the Executive Committee, in the intervals between meetings of the Board of Directors, shall have and may

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exercise all of the powers of the Board of Directors to manage the business and affairs of the Corporation except the power to:

- (a) Declare dividends or distributions on stock;
- (b) Issue stock other than as provided in Section 2-411(b) of Corporations and Associations Article of the Annotated Code of Maryland;
- (c) Recommend to the shareholders any action which requires shareholder approval;
- (d) Amend the By-Laws; or

- (e) Approve any merger or share exchange which does not require shareholder approval.

[MGCL, Section 2-411(a)]

Section 4.03.Other Committees of the Board of Directors: To the extent provided by resolution of the Board, other committees shall have and may exercise any of the powers that may lawfully be granted to the Executive Committee. [MGCL, Section 2-411(a)]

Section 4.04.Proceedings, Quorum, and Manner of Acting: In the absence of appropriate resolution of the Board of Directors, each committee may adopt such rules and regulations governing its proceedings, quorum and manner of acting as it shall deem proper and desirable, provided that the quorum shall not be less than two (2) Directors. In the absence of any member of any such committee, the members thereof present at any meeting, whether or not they constitute a quorum, may appoint a member of the Board of Directors to act in the place of such absent member. [MGCL, Section 2-411(c)]

Section 4.05.Other Committees: The Board of Directors may appoint other committees, each consisting of one or more persons who need not be Directors. Each such committee shall have such powers and perform such duties as may be assigned to it from time to time by the Board of Directors, but shall not exercise any power which may lawfully be exercised only by the Board of Directors or a committee thereof.

ARTICLE V

OFFICERS

Section 5.01.General: The officers of the Corporation shall be a President, one or more Vice Presidents (one or more of whom may be designated Executive Vice President), a Secretary, and a Treasurer, and may include one or more Assistant Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as may be appointed in accordance with the provisions of Section 5.11 hereof. The Board of Directors may elect, but shall not be required to elect, a Chairman of the Board. [MGCL, Section 2-412]

Section 5.02.Election, Term of Office and Qualifications: The officers of the Corporation (except those appointed pursuant to Section 5.11 hereof) shall be elected by the Board of Directors at its first meeting and thereafter at each annual meeting of the Board. If any officer or officers are not elected at any such meeting, such officer or officers may be elected at any subsequent regular or special meeting of the Board. Except as provided in

Sections 5.03, 5.04, and 5.05 hereof, each officer elected by the Board of Directors shall hold office until the next annual meeting of the Board of Directors and until his successor shall have been chosen and qualified. Any person may hold two or more offices of the Corporation, except that neither the Chairman of the Board, nor the President, may hold the office of Vice President, but no person shall execute, acknowledge, or verify any instrument in more than one capacity if such instrument is required by law, the Articles of Incorporation, or these By-Laws to be executed, acknowledged, or verified by two or more officers. The Chairman of the Board shall be selected from among the Directors of the Corporation and may hold such office only so long as he continues to be a Director. No other officer need be a Director. [MGCL, Sections 2-412, 2-413 and 2-415]

Section 5.03.Resignation: Any officer may resign his office at any time by delivering a written resignation to the Board of Directors, the President, the Secretary, or any Assistant Secretary. Unless otherwise specified therein, such resignation shall take effect upon delivery.

Section 5.04.Removal: Any officer may be removed from office by the Board of Directors whenever in the judgment of the Board of Directors the best interests of the Corporation will be served thereby. [MGCL, Section 2-413(c)]

Section 5.05.Vacancies and Newly Created Offices: If any vacancy shall occur in any office by reason of death, resignation, removal, disqualification or other cause, or if any new office shall be created, such vacancies or newly created offices may be filled by the Board of Directors at any meeting or, in the case of any office created pursuant to Section 5.11 hereof, by any officer upon whom such power shall have been conferred by the Board of Directors. [MGCL, Section 2-413(d)]

Section 5.06.Chairman of the Board: Unless otherwise provided by resolution of the Board of Directors, the Chairman of the Board, if there be such an officer, shall be the chief executive and operating officer of the Corporation, shall preside at all shareholders' meetings, and at all meetings of the Board of Directors. He shall be ex officio a member of all standing committees of the Board of Directors. Subject to the supervision of the Board of Directors, he shall have general charge of the business, affairs, property, and operation of the Corporation and its officers, employees, and agents. He may sign (unless the President or a Vice President shall have signed) certificates representing stock of the Corporation authorized for issuance by the Board of Directors and shall have such other powers and perform such other duties as may be assigned to him from time to time by the Board of Directors.

Section 5.07.President: Unless otherwise provided by resolution of the Board of Directors, the President shall, at the request of or in the absence or disability of the Chairman of the Board, or if no Chairman of the Board has been chosen, he shall preside at all shareholders' meetings and at all meetings of the Board of Directors and shall in general exercise the powers and perform the duties of the Chairman of the Board. He may sign (unless the Chairman or a Vice President shall have signed) certificates representing

stock of the Corporation authorized for issuance by the Board of Directors. Except as the Board of Directors may otherwise order, he may sign in the name and on behalf of the Corporation all deeds, bonds, contracts, or agreements. He shall exercise such other powers and perform such other duties as from time to time may be assigned to him by the Board of Directors.

Section 5.08.Vice President: The Board of Directors shall, from time to time, designate and elect one or more Vice Presidents (one or more of whom may be designated Executive Vice President) who shall have such powers and perform such duties as from time to time may be assigned to them by the Board of Directors or the President. At the request or in the absence or disability of the President, the Vice President (or, if there are two or more Vice

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Presidents, the Vice President in order of seniority of tenure in such office or in such other order as the Board of Directors may determine) may perform all the duties of the President and, when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Any Vice President may sign (unless the Chairman, the President, or another Vice President shall have signed) certificates representing stock of the Corporation authorized for issuance by the Board of Directors.

Section 5.09.Treasurer and Assistant Treasurers: The Treasurer shall be the principal financial and accounting officer of the Corporation and shall have general charge of the finances and books of account of the Corporation. Except as otherwise provided by the Board of Directors, he shall have general supervision of the funds and property of the Corporation and of the performance by the custodian of its duties with respect thereto. He may countersign (unless an Assistant Treasurer or Secretary or Assistant Secretary shall have countersigned) certificates representing stock of the Corporation authorized for issuance by the Board of Directors. He shall render to the Board of Directors, whenever directed by the Board, an account of the financial condition of the Corporation and of all his transactions as Treasurer; and as soon as possible after the close of each fiscal year he shall make and submit to the Board of Directors a like report for such fiscal year. He shall cause to be prepared annually a full and correct statement of the affairs of the Corporation, including a balance sheet and a financial statement of operations for the preceding fiscal year, which shall be submitted at the annual meeting of shareholders and filed within twenty (20) days thereafter at the principal office of the Corporation. He shall perform all the acts incidental to the office of the Treasurer, subject to the control of the Board of Directors. Any Assistant Treasurer may perform such duties of the Treasurer as the Treasurer or the Board of Directors may assign, and, in the absence of the Treasurer, he may perform all the duties of the Treasurer.

Section 5.10.Secretary and Assistant Secretaries: The Secretary shall attend to the giving and serving of all notices of the Corporation and shall record all proceedings of the meetings of the shareholders and Directors in one or more books to be kept for that purpose. He shall keep in safe custody the seal of the Corporation and shall have charge of the records of the

Corporation, including the stock books and such other books and papers as the Board of Directors may direct and such books, reports, certificates and other documents required by law to be kept, all of which shall at all reasonable times be open to inspection by any Director. He shall countersign (unless the Treasurer, an Assistant Treasurer or an Assistant Secretary shall have countersigned) certificates representing stock of the Corporation authorized for issuance by the Board of Directors. He shall perform such other duties as appertain to his office or as may be required by the Board of Directors. Any Assistant Secretary may perform such duties of the Secretary as the Secretary or the Board of Directors may assign, and, in the absence of the Secretary, he may perform all the duties of the Secretary.

Section 5.11.Subordinate Officers: The Board of Directors from time to time may appoint such other officers or agents as it may deem advisable, each of whom shall have such title, hold office for such period, have such authority and perform such duties as the Board of Directors may determine. The Board of Directors from time to time may delegate to one or more officers or agents the power to appoint any such subordinate officers or agents and to prescribe their respective rights, terms of office, authorities, and duties. Any officer or agent appointed in accordance with the provisions of this Section 5.11 may be removed, either with or without cause, by any officer upon whom such power of removal shall have been conferred by the Board of Directors. [MGCL, Section 2-412(b)]

Section 5.12.Remuneration: The salaries or other compensation of the officers of the Corporation shall be fixed from time to time by resolution of

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the Board of Directors, except that the Board of Directors may by resolution delegate to any person or group of persons the power to fix the salaries or other compensation of any subordinate officers or agents appointed in accordance with the provisions of Section 5.11 hereof.

Section 5.13.Surety Bond: The Board of Directors may require any officer or agent of the Corporation to execute a bond (including, without limitation, any bond required by the Investment Company Act and the rules and regulations of the Securities and Exchange Commission promulgated thereunder) to the Corporation in such sum and with such surety or sureties as the Board of Directors may determine, conditioned upon the faithful performance of his or her duties to the Corporation, including responsibility for negligence and for the accounting for any of the Corporation's property, funds or securities that may come into his or her hands.

ARTICLE VI

CUSTODY OF SECURITIES AND CASH

Section 6.01. Employment of a Custodian: The Corporation shall place and at all times maintain in the custody of a Custodian (including any sub-custodian for the Custodian) all funds, securities, and similar investments owned by the Corporation. The Custodian shall be a bank having an aggregate capital, surplus, and undivided profits of not less than \$10,000,000. Subject to such rules, regulations, and orders as the Securities and Exchange Commission may adopt as necessary or appropriate for the protection of investors, the Corporation's Custodian may deposit all or a part of the securities owned by the Corporation in a sub-custodian or sub-custodians situated within or without the United States. The Custodian shall be appointed and its remuneration fixed by the Board of Directors. [Investment Company Act, Section 17(f)]

Section 6.02. Central Certificate Service: Subject to such rules, regulations, and orders as the Securities and Exchange Commission may adopt as necessary or appropriate for the protection of investors, the Corporation's Custodian may deposit all or any part of the securities owned by the Corporation in a system for the central handling of securities established by a national securities exchange or national securities association registered with the Commission under the Securities Exchange Act of 1934, or such other person as may be permitted by the Commission, pursuant to which system all securities of any particular class or series of any issuer deposited within the system are treated as fungible and may be transferred or pledged by bookkeeping entry without physical delivery of such securities. [Investment Company Act, Section 17(f)]

Section 6.03. Cash Assets: The cash proceeds from the sale of securities and similar investments and other cash assets of the Corporation shall be kept in the custody of a bank or banks appointed pursuant to Section 6.01 hereof, or in accordance with such rules and regulations or orders as the Securities and Exchange Commission may from time to time prescribe for the protection of investors, except that the Corporation may maintain a checking account or accounts in a bank or banks, each having an aggregate capital, surplus, and undivided profits of not less than \$10,000,000, provided that the balance of such account or the aggregate balances of such accounts shall at no time exceed the amount of the fidelity bond, maintained pursuant to the requirements of the Investment Company Act and rules and regulations thereunder, covering the officers or employees authorized to draw on such account or accounts. [Investment Company Act, Section 17(f)]

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Section 6.04. Free Cash Accounts: The Corporation may, upon resolution of its Board of Directors, maintain a petty cash account free of the foregoing requirements of this Article VI in an amount not to exceed \$500, provided that such account is operated under the imprest system and is maintained subject to adequate controls approved by the Board of Directors over disbursements and reimbursements including, but not limited to, fidelity bond coverage for persons having access to such funds. [Investment Company Act, Rule 17f-3]

Section 6.05.Action Upon Termination of Custodian Agreement: Upon resignation of a custodian of the Corporation or inability of a custodian to continue to serve, the Board of Directors shall promptly appoint a successor custodian, but in the event that no successor custodian can be found who has the required qualifications and is willing to serve, the Board of Directors shall call as promptly as possible a special meeting of the shareholders to determine whether the Corporation shall function without a custodian or shall be liquidated. If so directed by vote of the holders of a majority of the outstanding shares of stock of the Corporation, the custodian shall deliver and pay over all property of the Corporation held by it as specified in such vote.

Section 6.06.Other Arrangements: The Corporation may make such other arrangements for the custody of its assets (including deposit arrangements) as may be required by any applicable law, rule or regulation.

ARTICLE VII

EXECUTION OF INSTRUMENTS, VOTING OF SECURITIES

Section 7.01.Execution of Instruments: All deeds, documents, transfers, contracts, agreements, requisitions or orders, promissory notes, assignments, endorsements, checks and drafts for the payment of money by the Corporation, and other instruments requiring execution by the Corporation shall be signed by the Chairman, the President, a Vice President, or the Treasurer, or as the Board of Directors may otherwise, from time to time, authorize. Any such authorization may be general or confined to specific instances.

Section 7.02.Voting of Securities: Unless otherwise ordered by the Board of Directors, the Chairman, the President, or any Vice President shall have full power and authority on behalf of the Corporation to attend and to act and to vote, or in the name of the Corporation to execute proxies to vote, at any meeting of shareholders of any company in which the Corporation may hold stock. At any such meeting such officer shall possess and may exercise (in person or by proxy) any and all rights, powers, and privileges incident to the ownership of such stock. The Board of Directors may by resolution from time to time confer like powers upon any other person or persons. [MGCL, Section 2-509]

ARTICLE VIII

CAPITAL STOCK

Section 8.01.Ownership of Shares:

(a) Certificates certifying the ownership of shares will not be issued for shares purchased or otherwise acquired. The ownership of shares,

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full or fractional, shall be recorded on the books of the Corporation or its agent. The record books of the Corporation as kept by the Corporation or its agent, as the case may be, shall be conclusive as to the number of shares held from time to time by each such shareholder.

Section 8.02. Transfer of Capital Stock:

(a) Shares of stock of the Corporation shall be transferable only upon the books of the Corporation kept for such purpose.

(b) The Corporation shall be entitled to treat the holder of record of any share of stock as the absolute owner thereof for all purposes, and accordingly shall not be bound to recognize any legal, equitable, or other claim or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise expressly provided by the statutes of the State of Maryland.

Section 8.03. Transfer Agents and Registrars: The Board of Directors may, from time to time, appoint or remove transfer agents and registrars of transfers of shares of stock of the Corporation, and it may appoint the same person as both transfer agent and registrar.

Section 8.04. Transfer Regulations: The shares of stock of the Corporation may be freely transferred, and the Board of Directors may, from time to time, adopt lawful rules and regulations with reference to the method of transfer of the shares of stock of the Corporation.

Section 8.05. Fixing of Record Date: The Board of Directors may fix in advance a date as a record date for the determination of the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or to receive payment of any dividend or other distribution or allotment of any rights, or to exercise any rights in respect of any change, conversion, or exchange of stock, or for any other proper purpose, provided that such record date shall be a date not more than sixty (60) days nor, in the case of a meeting of shareholders, less than ten (10) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. In such case, only such shareholders as shall be shareholders of record on the record date so fixed shall be entitled to such notice of, and to vote at, such meeting or adjournment, or to give such consent, or to receive payment of such dividend or other distribution, or to receive such allotment of rights, or to exercise such rights, or to take other action, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after any such record date. A meeting of shareholders convened on the date for which it was called may be adjourned

from time to time without notice to a date not more than one hundred twenty (120) days after the original record date. [MGCL, Section 2-511]

ARTICLE IX

FISCAL YEAR, ACCOUNTANT

Section 9.01.Fiscal Year: The fiscal year of the Corporation shall be the twelve (12) calendar months beginning on the 1st day of June in each year and ending on the last day of the following May, or such other period of twelve (12) calendar months as the Board of Directors may by resolution prescribe.

Section 9.02.Accountant:

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(a) The Corporation shall employ an independent public accountant or firm of independent public accountants for each series of the Corporation to examine the accounts of the Corporation with respect to such series and to sign and certify financial statements filed by the Corporation with respect to such series. The certificates and reports of the accountant(s) shall be addressed both to the Board of Directors and to the shareholders. The Corporation may employ a different accountant with respect to each series.

(b) A majority of the members of the Board of Directors who are not interested persons (as such term is defined in the Investment Company Act) of the Corporation shall select the accountant for each series, by vote cast in person, at any meeting held within such period of time as may be allowed under the Investment Company Act. Such selection shall be submitted for ratification or rejection at the next succeeding annual shareholders' meeting for such series. If such meeting shall reject such selection, the accountant for such series shall be selected by majority vote of the Corporation's outstanding voting securities of such series, either at the meeting at which the rejection occurred or at a subsequent meeting of shareholders for such series called for the purpose.

(c) Any vacancy occurring between annual meetings, due to the death or resignation of the accountant of a series, may be filled by the vote of a majority of those members of the Board of Directors who are not interested persons (as so defined) of the Corporation, cast in person at a meeting called for the purpose of voting on such action.

(d) The employment of the accountant of a series shall be conditioned upon the right of such series of the Corporation by vote of a majority of the outstanding voting securities of such series at any meeting

called for the purpose to terminate such employment forthwith without any penalty. [Investment Company Act, Section 32(a)]

ARTICLE X

INDEMNIFICATION AND INSURANCE

Section 10.01. Indemnification and Payment of Expenses in Advance: The Corporation shall indemnify any individual ("Indemnitee") who is a present or former director, officer, employee, or agent of the Corporation, or who is or has been serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, who, by reason of his position was, is, or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (hereinafter collectively referred to as a "Proceeding") against any judgments, penalties, fines, settlements, and reasonable expenses (including attorneys' fees) incurred by such Indemnitee in connection with any Proceeding, to the fullest extent that such indemnification may be lawful under Maryland law. The Corporation shall pay any reasonable expenses so incurred by such Indemnitee in defending a Proceeding in advance of the final disposition thereof to the fullest extent that such advance payment may be lawful under Maryland law. Subject to any applicable limitations and requirements set forth in the Corporation's Articles of Incorporation and in these By-Laws, any payment of indemnification or advance of expenses shall be made in accordance with the procedures set forth in Maryland law.

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Notwithstanding the foregoing, nothing herein shall protect or purport to protect any Indemnitee against any liability to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his office ("Disabling Conduct").

Anything in this Article X to the contrary notwithstanding, no indemnification shall be made by the Corporation to any Indemnitee unless:

- (a) there is a final decision on the merits by a court or other body before whom the Proceeding was brought that the Indemnitee was not liable by reason of Disabling Conduct; or
- (b) in the absence of such a decision, there is a reasonable determination, based upon a review of the facts, that the Indemnitee was not liable by reason of Disabling Conduct, which determination shall be made by:

- (i) the vote of a majority of a quorum of directors who are neither "interested persons" of the Corporation as defined in Section 2(a)(19) of the Investment Company Act, nor parties to the Proceeding; or
- (ii) an independent legal counsel in a written opinion.

Anything in this Article X to the contrary notwithstanding, any advance of expenses by the Corporation to any Indemnitee shall be made only upon the undertaking by such Indemnitee to repay the advance unless it is ultimately determined that such Indemnitee is entitled to indemnification as above provided, and only if one of the following conditions is met:

- (a) the Indemnitee provides a security for his undertaking; or
- (b) the Corporation shall be insured against losses arising by reason of any lawful advances; or
- (c) there is a determination, based on a review of readily available facts, that there is reason to believe that the Indemnitee will ultimately be found entitled to indemnification, which determination shall be made by:
 - (i) a majority of a quorum of directors who are neither "interested persons" of the Corporation as defined in Section 2(a)(19) of the Investment Company Act, nor parties to the Proceeding; or
 - (ii) an independent legal counsel in a written opinion.

Section 10.02. Insurance of Officers, Directors, Employees and Agents: To the fullest extent permitted by applicable Maryland law and by Section 17(h) of the Investment Company Act, as from time to time amended, the Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Corporation, or who is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against any liability asserted against him and incurred by him in or arising out of his position, whether or not the Corporation would have the power to indemnify him against such liability. [MGCL, Section 2-418(k)]

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Section 10.03.Amendment: No amendment, alteration or repeal of this Article or the adoption, alteration or amendment of any other provision of the Articles of Incorporation or By-Laws inconsistent with this Article shall adversely affect any right or protection of any person under this Article with respect to any act or failure to act which occurred prior to such amendment,

alteration, repeal or adoption.

ARTICLE XI

AMENDMENTS

Section 11.01.General: Except as provided in Section 11.02 hereof, all By-Laws of the Corporation, whether adopted by the Board of Directors or the shareholders, shall be subject to amendment, alteration, or repeal, and new By-Laws may be made, by the affirmative vote of a majority of either:

(a) the holders of record of the outstanding shares of stock of the Corporation entitled to vote, at any annual or special meeting the notice or waiver of notice of which shall have specified or summarized the proposed amendment, alteration, repeal, or new By-Law; or

(b) the Directors present at any regular or special meeting at which a quorum is present if the notice or waiver of notice thereof or material sent to the Directors in connection therewith on or prior to the last date for the giving of such notice under these By-Laws shall have specified or summarized the proposed amendment, alteration, repeal, or new By-Law.

Section 11.02.By Shareholders Only:

(a) No amendment of any section of these By-Laws shall be made except by the shareholders of the Corporation if the shareholders shall have provided in the By-Laws that such section may not be amended, altered, or repealed except by the shareholders.

(b) From and after the issue of any shares of the Capital Stock of the Corporation, no amendment of this Article XI shall be made except by the shareholders of the Corporation.

ARTICLE XII

MISCELLANEOUS

Section 12.01. Use of the Term "Annual Meeting:" The use of the term "annual meeting" in these By-Laws shall not be construed as implying a requirement that a shareholder meeting be held annually.

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OF

T. ROWE PRICE PERSONAL STRATEGY FUNDS, INC.

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May 17, 1994

T. Rowe Price Personal Strategy Funds, Inc.
100 East Pratt Street
Baltimore, MD 21202

Dear Sirs:

In connection with the proposed registration of an indefinite number of shares of Capital Stock of your Company, I have examined certified copies of your Company's Articles of Incorporation dated May 12, 1994, and the By-Laws of your Company as presently in effect.

I am of the opinion that:

(i) your Company is a corporation duly organized and existing under the laws of Maryland; and

(ii) each of such authorized shares of Capital Stock of your Company, upon payment in full of the price fixed by the Board of Directors of your Company, will be legally and validly issued and will be fully paid and non-assessable.

I hereby consent to the use of this opinion as an exhibit to the Company's Registration Statement on Form N-1A to be filed with the Securities and Exchange Commission for the registration under the Securities Act of 1933 of an indefinite number of shares of Capital Stock of your Company.

Sincerely,

/s/Henry H. Hopkins
Henry H. Hopkins