



RBC Funds (Lux) - Canadian Equity Value Fund – Third Quarter 2018 Commentary

In the third quarter of 2018, the Fund returned -0.4%* performing in line with its benchmark, the S&P/TSX Capped Composite Index (CAD), which returned -0.6%.

The S&P/TSX Composite Index hit an all-time high in mid-July. It then retreated during the remainder of the quarter on uncertainty about the impact of the Trump administration's focus on global trade and NAFTA. At the very end of September, however, Canada agreed to join an updated trade deal to be called the United States-Mexico-Canada Agreement, or USMCA. If approved by legislators in the three countries, the new deal would avoid abandonment of one of the world's most successful trading arrangements. Relative performance of the Fund was positively influenced by asset weighting and security selection. In particular, the Fund benefited from its underweight position in the Materials sector. Our overweight position in ATS Automation Tooling Systems in Industrials was another positive contributor to performance. The company's new management group continues to tick the boxes – winning new business, increasing operating margins and using its balance sheet to grow the business.

The largest detractor over the quarter was the Fund's overweight position in MEG Energy. The stock came back off previous strong performance due to concerns over widening spreads for Canadian heavy crude oil. Overall, the Canadian economy continues to show signs of strength. The unemployment rate is at its lowest level in four decades. There has been a string of positive policy developments, coinciding with the possibility of business tax cuts in the next federal budget. These have stoked optimism that the Canadian economy can continue to expand comfortably. That said, concerns remain. Some investors are worried about the sustainability of Canada's domestic housing market and the country's diminishing competitiveness relative to the U.S. In our view, Canadian equities remain attractively valued. We believe there is the potential for gains in the months ahead.

* Net of fees and expenses for the O share class

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