Global Asset Management

Quarterly commentary

RBC Funds (Lux) – Emerging Markets Equity Fund – First Quarter 2018 Commentary

In the first quarter of 2018, the Fund returned -1.2%* underperforming its benchmark, the MSCI Emerging Markets Total Return Net Index (USD), which returned 1.4%.

Emerging markets (EM) equities continued to outperform developed markets (DM) equities in the first quarter of 2018. Although January began positively, supported by gains in the Information Technology sector, this reversed in February when we saw a sell-off in global equities as tensions escalated around trade protectionism and a possible U.S.-China trade war.

For the Fund, at the sector level stock selection in Healthcare and Industrials detracted from returns, particularly our holdings in Dr. Reddy's and SM Investment. At the country level, stock selection in China and South Korea detracted from returns, however this was somewhat offset by strong stock selection in India.

The biggest contributor to relative returns during the quarter was Banco Bradesco. The Brazilian bank continued to benefit from the positive changes in the political environment which are expected to aid an economic recovery in the country. Following the stock's strong performance we decided to switch into Banco do Brasil where we see potential for much higher growth in ROE. Credicorp, the Peruvian bank, also performed well as it gained alongside the broader equity market despite the uncertain political backdrop. South African retailer Shoprite Holdings gained on the back of stronger-than-expected results. This was helped by FX gains and also strong growth in the company's high-end supermarket chain, Checkers.

Naspers, the South African media conglomerate, was the biggest detractor during the quarter. The stock came under pressure in March following its announcement to sell 2% of its 33% stake in Tencent. While this is a positive step by the company to demonstrate that it can monetise its stake in Tencent, the market felt there was a lack of clarity on the use of these proceeds and questioned why the money was not being used to narrow the long-standing discount to its holding in Tencent. SM Investments was the second-biggest detractor and came under pressure amid broader market weakness following its strong performance. Indian pharmaceutical Dr. Reddy's continues to face challenges on the back of increased pricing pressure on generics in the U.S and there is also ongoing scrutiny and regulation from the U.S. FDA, both of which are expected to persist in the near term.

While 2017 was characterised by a very narrow market led by the IT sector and the outperformance of cyclicals relative to defensives, we believe that, looking forward to 2018, earnings growth will be more broad based and sector dispersion will decline. We continue to believe that there is a strong case for avoiding the most expensive parts of the market which have become crowded and where valuations have become increasingly stretched in recent years.

* Net of fees and expenses for the O share class

Important Information:

This information is intended for Professional Investor use only. Not for public distribution.

No investment should be made in one of these products without careful consideration of the Prospectus for the Funds and the Key Investor Information Document for the relevant Sub-Fund, each available at www.rbcgam.com or from your contact at RBC Global Asset Management.

This document is being provided by RBC Global Asset Management (UK) Limited, part of RBC Global Asset Management. This document may not be reproduced in whole or part, and may not be delivered to any person without the consent of RBC Global Asset Management. This document is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any investment strategy and should not be construed as tax or legal advice. Not all products, services or investments described herein are available in all jurisdictions and some are available on a limited basis only, due to local regulatory and legal requirements.

Past performance is not indicative of future results. The information contained in this report has been compiled by RBC Global Asset Management and/or its affiliates from sources believed to be reliable, but no representation or warranty, express or implied is made to its accuracy, completeness or correctness. With all investments there is a risk of loss of all or a portion of the amount invested.

This document contains the current opinions of RBC Global Asset Management and is not intended to be, and should not be interpreted as, a recommendation of any particular security, strategy or investment product. Unless otherwise indicated, all information and opinions herein are as of the date of this document. All information and opinions herein are subject to change without notice.

RBC Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management Inc., RBC Global Asset Management (UK) Limited, BlueBay Asset Management LLP, BlueBay Asset Management USA LLC and the asset management division of RBC Investment Management (Asia) Limited, which are separate, but affiliated corporate entities.

RBC Global Asset Management (UK) Limited is authorised and regulated by the Financial Conduct Authority.