



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

In the fourth quarter of 2018 the Fund returned -4.0%* outperforming its benchmark, the MSCI Emerging Markets Total Return Net Index (USD), which returned -7.5%.

The Fund's outperformance was driven by strong stock selection at a sector level and was especially strong in Financials and Healthcare. The portfolio's overweight position to Financials also helped. At the country level, both stock selection and country positioning contributed positively to relative returns. Stock selection was especially strong in Brazil and South Korea and underweight positions to China and South Korea also added to relative returns.

The biggest contributor to relative returns this quarter was our holding in Banco do Brasil. Brazil equity markets were bolstered by the outcome of the presidential elections in October which saw market-friendly candidate, Bolsonaro, claim victory over the leftist PT party. As Brazil's largest and oldest bank, Banco do Brasil's share price strengthened considerably. Positions in two other Brazilian companies, Banco Bradesco and Natura Cosméticos, also contributed during the quarter as their shares benefited from the post-election Brazil equity market rally. In addition Natura Cosméticos also announced solid Q3 2018 results which cited strong revenue growth as well as market share gains. Holdings in Indian financial company HDFC and Indonesian pharmaceutical Kalbe Farma also contributed.

The biggest detractor from relative returns this quarter was our holding in Softbank. Despite reporting very strong Q3 2018 results, its share price declined alongside broader market weakness. Softbank has been increasing its exposure to high-growth companies operating in new technology areas through its Vision Fund. At the same time it has divested from more traditional lines of business including the recent sale of a 37% stake in its Japanese telecommunications unit, Softbank Corp. As this transition continues, we expect Softbank's share price to be sensitive to equity market sentiment. Our holding in Mondi also detracted as the share price declined alongside broader weakness in the paper and packaging sector. This was largely due to expectations of containerboard price softness which may negatively impact near-term earnings. The share price of global luggage retailer Samsonite weakened on the back of concerns relating to a weaker China macro environment as well as U.S./China trade tariffs, which may lead to pricing pressure and slower sales growth in the short term. Not owning Brazilian bank Itau Unibanco or Chinese technology giant Tencent hurt relative performance this quarter.

* Net of fees and expenses for the O share class

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