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

In the first quarter of 2018, the Fund returned 1.6%* performing in line with 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 country level, strong stock selection, combined with an overweight position in Brazil, was the greatest contributor towards relative returns. This followed the positive developments in the political backdrop, which in turn led to expectations of a macroeconomic recovery. Stock selection in South Korea detracted from returns.

At the sector level, stock selection in the Real Estate and Financials sectors contributed positively to relative returns while Information Technology detracted.

Suzano Papel e Celulose was the biggest contributor to relative returns during the quarter. The South African pulp producer benefited from stronger pulp prices and the company's announcement that it would be purchasing Fibria, an accretive deal which should allow it to control 30% of hardwood pulp globally. Banco do Brasil performed well as the company has benefited from positive sentiment on the back of expectations of an economic recovery in Brazil. Shimao Property Holdings, the Chinese property developer, reported strong sales growth of 48% in 2017. Management remains confident that Shimao can sustain its high growth in 2018, targeting 40%-50% sales growth following the optimisation of its corporate structure of regional companies.

The biggest detractor over the period was Mando as the company's share price corrected in February after management reported disappointing 2018 guidance. Nexteer detracted as the stock price came under pressure after the company reported poor earnings for the second half of 201. Nexteer has also been negatively impacted by the recent concerns over U.S.-China trade wars given its high sales exposure to the U.S. (almost 60%). GHCL had a disappointing quarter although there was no negative stock-specific news to impact the stock price. There was general weakness in the Indian mid cap space, however, following the announcement of a long term capital gains tax in India.

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

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