Global Asset Management

Quarterly commentary

RBC Funds (Lux) – Global Resources Fund – Second Quarter 2017 Commentary

In the second quarter of 2017, the Fund returned -5.6%* underperforming its benchmark, 65% MSCI World Energy Sector/35% MSCI World Materials Sector Index (USD), which returned -2.3%.

The Energy sector delivered extremely weak performance amid falling oil prices on scepticism that OPEC production cuts were sufficient to offset rising supplies. OPEC's decision in May to extend last year's production cuts had the unintended effect of driving oil prices even lower, as investors' hopes for even bigger reductions were dashed. In June, an unexpected rise in U.S. inventories sent North American benchmark prices tumbling to their lowest in 2017, just above US$40 a barrel. U.S. natural-gas prices fell, but less so than crude oil, given robust demand for liquid natural gas exports and a continued shift to gas-fired power generation.

The Fund's relative performance was negatively impacted by underweight positions in global integrated oil companies, which are more resilient in times of energy price volatility. Laredo Petroleum and Continental were among the Fund's worst exploration and production (E&P) performers. Oil field service names including Patterson-UTI and U.S. Silica also detracted from performance. These losses were partially offset by robust relative performance from Yangarra Resources and Galp Energia.

The Material sector underperformed in Q2 as negative contribution from asset weighting was mostly offset by positive security selection and currency performance. The Fund was underweight industrial gases and underweight specialist chemicals, both of which detracted from performance in Q2.

The weaker U.S. dollar, improving Chinese data, and supply discipline are helping the metals. We believe that OPEC's extension limiting production should help curb inventory growth in Q3 and beyond. Assuming a decline in global inventories, we see the potential for gains in oil prices and energy-equity prices during the second half of 2017. Our approach remains to invest in companies with high-quality assets, strong management and the ability to finance growth projects.

* Net of fees and expenses for the O share class

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