



September, 2014

Spotlight:

RBC Funds (Lux) – Emerging Markets Equity Fund

About the Manager

RBC Global Asset Management (RBC GAM) is a North American-based asset manager with global scope and industry-leading management capabilities. The RBC GAM group of companies manages US \$315B in assets worldwide (as at September 30, 2014). This includes RBC GAM – UK which manages the RBC Funds (Lux) Emerging Markets Equity Fund.

About the Fund

The Fund is managed by Phil Langham, who joined the firm in 2009 to establish and lead RBC GAM’s emerging markets equity team in London, UK. Phil is supported by six other investment professionals who provide fundamental research support and expertise.

The team believes that companies with sustainably high cash flow return on investment (CFROI) produce superior returns and will emphasize quality and growth while being mindful of valuations.

The investment process combines the team’s distinctive top-down thematic views with in-depth and rigorous company-level research. The thematic views are global and long-term in nature, typically expected to extend over several years. Each theme is thoroughly researched and investable.

The stock selection process begins with a screening tool that narrows the universe of stocks based on an assessment of each company’s quality (CFROI), growth (cash flow growth and momentum) and value (cash flow valuation). The team will then conduct in-depth fundamental research on companies that screen well, including an assessment of the company’s quality of management, industry positioning, growth sustainability, financial strength and relative value. The team will typically meet with company management at least once before investing, often conducting an onsite company visit.

The portfolio is fairly concentrated with 40 – 60 stocks with weightings based on conviction levels. With a relatively long-term investment horizon the portfolio maintains a low annual turnover rate of 25 – 50%. Country weightings are an outcome of the stock selection process although macro views and diversification considerations will influence country choice. Securities will be sold when the investment thesis changes, valuation is reached, or a more attractive opportunity is found.

RBC Funds (Lux)
Portfolios
offer access to a
selection of
renowned global
money managers



RBC Global
Asset Management



News & Notes: Schroders Appoints New Manager

In early September, Schroder Investment management LTD announced that Matt Hudson will take on full fund management responsibility of the Schroder UK Opportunities Fund (formerly the Cazenove UK Opportunities Fund). The manager change was precipitated by the resignation and departure Julie Dean who had been managing the portfolio since January of 2009. The RBC GAM Manager Research team has been in touch with Schroders to discuss developments and is monitoring the fund closely.

The RBC Funds (Lux) – Portfolios’ target allocation to the RBC Funds (Lux) – Emerging Markets Equity Fund at September 30th, 2014 was:

Portfolio weights are subject to change

Fund	Allocation
RBC Funds (Lux) – Conservative Portfolio	0%
RBC Funds (Lux) – Balanced Portfolio	3.9%
RBC Funds (Lux) – Growth Portfolio	4.5%

RBC GAM Evaluation Process

The RBC Funds (Lux) Emerging Markets Equity Fund was added to the RBC Funds (Lux) Portfolios after undergoing an evaluation of emerging market equity strategies by the RBC GAM Global Manager Research Team.

This process included rigorous quantitative screening and onsite portfolio management meetings with the RBC GAM U.K. team at their offices in London. The longer term track record of the Canadian domiciled emerging market equity fund the team manages was used for evaluation purposes and provided a sufficiently robust data set for thorough analysis.

One of the key findings was that the team's approach yielded very strong relative returns in down markets while still capturing a good share of gains in up markets. The portfolio overall demonstrates characteristics of a “Growth at a Reasonable Price” style that is consistent with the stated investment process and philosophy that the Portfolio Managers articulate. The overall performance characteristics, including down side protection, and the team's management approach made it a good solution for the core emerging markets equity allocation of the RBC Funds (Lux) - Portfolios.

Rates of Return to September 30, 2014 (Class O, USD, %)

Fund	1 Mth	3 Mths	6 mths	1 Yr	2 Yr	Incept.
RBC Funds (Lux) – Conservative Portfolio USD	-2.2%	-1.4%	1.4%	6.2%	6.2%	6.5%
RBC Funds (Lux) – Balanced Portfolio USD	-1.7%	-1.7%	1.5%	7.4%	8.7%	9.1%
RBC Funds (Lux) – Growth Portfolio USD	-2.6%	-2.3%	1.0%	7.5%	10.5%	10.9%

Since inception performance is calculated from the month-end following inception. All fund performance data is net of fees. Please refer to the website (www.rbcgam.com) for information on all available share classes. Inception date is September, 5th 2012.

Team Viewpoint

The secular outlook for global growth has stabilized and leadership has clearly shifted to the U.S., where a durable, if somewhat subdued, economic expansion is unfolding. Global growth is moderate and there are still challenges to overcome, but many of the headwinds that defined the post-crisis investing environment have diminished or disappeared. Global bond yields remain stubbornly low, but we continue to believe that in the context of an ongoing and broadening global recovery, bond yields should rise and we remain underweight fixed income as a result. For stocks, prospective total returns have moderated, but are still attractive. Valuations are not yet excessive, the global economy and corporate profits remain supportive and relative valuations favour stocks over bonds by a significant margin. Therefore, we have maintained our overweight exposure to equities.

What Happened in World Markets Last Quarter

Fixed Income

Global fixed-income markets moved higher during the quarter on assurances from the U.S. Federal Reserve that they would remain accommodative until the U.S. economy showed signs of sustained strength. Continued geopolitical turbulence in the Middle East and between Russia and Ukraine heightened volatility during the quarter. In the sovereign-bond markets, longer-dated developed-market debt outperformed both shorter maturities and emerging-market bonds. In non-sovereign debt markets, investment-grade issues generally gained, handily outperforming high-yield bonds. The Citibank WGBI USD Hedged Index returned 1.5% for the quarter.

U.S. Equity

U.S. stocks gained during the quarter after GDP growth was revised upward and consumer spending rose more than expected, offsetting slowing global economic growth in Europe, South America and Asia. Across sectors, Energy, Utilities and Industrials declined as slower global growth weighed on commodity prices. Stocks in the Information Technology and Health Care sectors were boosted by consumer spending and merger and acquisition activity, respectively. In the final days of the quarter, concerns about interest rate hikes and geopolitical unrest led to increased levels of volatility including a single day drop in the S&P 500 Index of 1.6%. For the whole quarter, the S&P 500 Total Return Index rose 1.1%.

Eurozone and U.K. Equities

Stock markets in Europe were broadly lower as economic data pointed to a slowdown in the region's economic recovery. July was particularly turbulent amid renewed investor concern about the Financials sector, after accounting irregularities were disclosed by the parent company of Portuguese bank Espirito Santo. On the geopolitical front, the continued uncertainty over the Russian–Ukraine conflict and the potential negative impact of economic sanctions on Russia also supported a “risk-off” mood among investors. Efforts by the European Central Bank in September to bolster economic growth through rate cuts helped equities recover from the lows of the quarter but were not enough to produce gains for the period as a whole. The resource-heavy U.K. market declined on slower economic growth in China. At the same time, U.K. property markets showed signs of cooling and that lowered the appetite for consumer-related stocks as confidence waned. The MSCI Europe ex-U.K. Net Return Index dropped 7.5% in the quarter, while the MSCI United Kingdom Net Return Index fell 6.1%.

Asian Equities (ex-Emerging Markets)

Asian equity markets finished lower for the quarter, primarily on concerns about faster U.S. monetary tightening and weaker-than-anticipated Chinese economic data. Within the region, South Asian markets rose, driven largely by expectations of pro-growth policy changes after elections in India and Indonesia. North Asian markets were generally lower on softening economic data, weakening consumer demand and vulnerability to U.S. interest rate increases. In the Japanese equity market, weakness in the yen against the U.S. dollar in the latter part of the quarter provided a boost to export-sensitive stocks, while stocks tied to domestic economic growth underperformed. The MSCI AC Asia ex-Japan Net Return Index fell 1.7% and the MSCI Japan Net Return Index declined 2.3% during the quarter.

Emerging-Market Equities

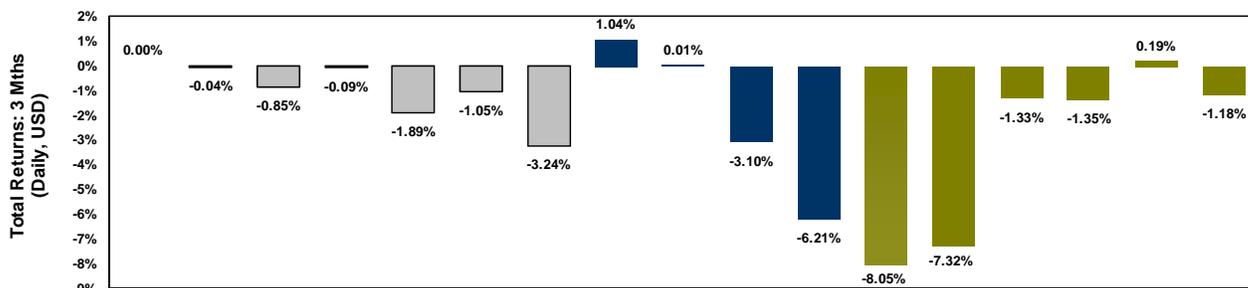
Within the MSCI Emerging Markets Index, Asia outperformed due to strength in the Philippines and Thailand after better-than-expected macroeconomic data. Europe, the Middle East and Africa (EMEA) underperformed due to weakness in Hungary and Russia after escalation in the Russia-Ukraine conflict, while Latin America underperformed due mainly to relative weakness in Brazil as polls showed increasing support for President Rousseff. The best-performing sectors in emerging markets during the quarter were Health Care and Telecommunication Services, while Materials, Energy and Consumer Discretionary lagged. The MSCI Emerging Markets Net Index dropped 3.5% for the quarter.

Note: All quoted returns are in USD terms.

Asset Allocation in RBC Funds (Lux) – Portfolios

Asset Class	RBC Funds (Lux) - Conservative Portfolio				RBC Funds (Lux) - Balanced Portfolio				RBC Funds (Lux) - Growth Portfolio			
	Neutral	Range	Q3 2014	Q2 2014	Neutral	Range	Q3 2014	Q2 2014	Neutral	Range	Q3 2014	Q2 2014
Cash	0.00%	0 - 10%	0.95%	0.77%	0.00%	0 - 10%	0.55%	0.72%	0.00%	0 - 10%	0.72%	0.87%
Fixed Income	65.00%	50 - 80%	60.38%	60.25%	45.00%	30 - 60%	40.66%	40.26%	30.00%	15 - 45%	25.53%	25.06%
North American Equities	20.00%	10 - 40%	22.48%	22.30%	30.00%	10 - 57.5%	31.97%	31.51%	37.00%	23 - 60%	38.54%	38.02%
Eurozone Equities	11.00%	0 - 30%	12.00%	12.64%	14.00%	0 - 35%	14.63%	15.41%	19.00%	5 - 35%	19.60%	20.65%
Asian (ex EM) Equities	0.00%	0 - 15%	4.19%	3.84%	6.00%	0 - 15%	6.07%	5.53%	7.00%	0 - 15%	6.96%	6.24%
Emerging Market Equities	0.00%	0 - 5%	0.00%	0.00%	5.00%	0 - 10%	6.12%	6.56%	7.00%	3 - 15%	6.65%	9.15%

Underlying Fund Performance



Funds	Cash	iShares Barclays 1-3 Year Treasury Bond Index Fund	PIMCO GIS Total Return Bond Institutional Fund	RBC Funds (Lux) U.S. Investment Grade Corporate Bond Fund	RBC Funds (Lux) Global Bond Fund	Schroder ISF US Dollar Bond Fund	BlueBay Emerging Market Select Bond Fund	iShares Core S&P 500 Index Fund	Robeco Investment Management US Large Cap Equities	RBC Funds (Lux) U.S. Mid Cap Value Equity Fund	RBC Funds (Lux) U.S. Small Cap Equity Fund	Threadneedle European Select Fund*	Schroder ISF - UK Opportunities	Aberdeen Global Asia Pacific Equity Fund (ex Japan)	Aberdeen Global Japanese Equity Fund	RBC Funds (Lux) Emerging Markets Equity Fund	First State Global Emerging Market Leaders Fund
RBC Funds (LUX) – Conservative Portfolio	0.95%	9.75%	9.74%	13.01%	10.27%	13.01%	4.61%	16.86%	0.00%	5.61%	0.00%	7.66%	4.34%	3.15%	10.4%	0.00%	0.00%
RBC Funds (LUX) – Balanced Portfolio	0.55%	4.99%	4.93%	16.27%	9.99%	0.00%	4.49%	12.29%	12.19%	7.49%	0.00%	9.44%	5.19%	4.55%	15.2%	3.88%	2.24%
RBC Funds (LUX) – Growth Portfolio	0.72%	5.12%	0.00%	11.04%	5.12%	0.00%	4.25%	13.84%	13.65%	7.38%	3.67%	12.92%	6.68%	5.24%	1.72%	4.54%	4.1%

Underlying funds and portfolio weights are subject to change.
Source: Morningstar

RBC Funds (Lux) is an open-ended investment company incorporated under the laws of the Grand Duchy of Luxembourg (société d'investissement à capital variable or the "SICAV") and qualifies as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under Article 1, paragraph 2, points a) and b) of the Directive 2009/65/EC of July 13, 2009, as amended.

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Index returns are for illustrative purposes only, do not represent actual fund performance and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index.

None of the Shares of the Funds has been or will be registered for sale or distribution in Canada or in the United States.

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