



RBC Funds (Lux) – U.S. Investment Grade Corporate Bond Fund – First Quarter 2018 Commentary

In the first quarter of 2018, the Fund returned -2.6%* performing in line with its benchmark, the Barclays Capital U.S. Corporate Bond Index (USD), which returned -2.3%.

Over the last year, positive returns in the U.S. investment-grade corporate bond market have been driven by strong corporate fundamentals and investor demand. These have pushed yields, relative to U.S. Treasury bonds, to their lowest levels in over 10 years. A recent widening of spreads, combined with rising interest rates, has detracted from overall performance in the last quarter however.

Fund positions in AT&T Inc., Microsoft Corp. and utility companies, such as Southern Co. and Exelon Corp., were strong individual contributors. These companies reported strong earnings and have benefited from U.S. tax reform and other positive, bondholder-friendly regulatory reforms. The Fund's positioning in the banking and basic industries detracted from performance. The Fund has an overweight position to the Banking sector, which lagged the Index during the year. Conversely, the Fund has a slight underweight to Basic Materials, which was one of the top-performing sectors during the last 12 months.

The portfolio manager continues to favour large companies with stable or improving credit profiles and avoid companies that are likely to finance large acquisitions with debt or engage in shareholder-friendly activity at the expense of bondholders. The Fund has overweight positions in Banking and Utilities, given the positive impact of the regulatory environment and earnings outlook for these industries.

Earnings growth and strong balance sheets bode well for corporate bonds in 2018 as will the new U.S. tax law. As a result, the portfolio manager does not anticipate making any material changes to the Fund's positioning in the near future and continues to prefer companies focusing on the U.S., generating consistent cash flow and reducing debt.

* Net of fees and expenses for the O share class

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