



RBC Funds (Lux) – U.S. Investment Grade Corporate Bond Fund – Second Quarter 2017 Commentary

In the second quarter of 2017, the Fund returned 2.6%* performing in line with its benchmark, the Barclays Capital U.S. Corporate Bond Index (USD), which returned 2.5%.

The combination of increases in the U.S. Federal Reserve rate and diminished expectations of higher inflation has led to a flatter yield curve. The spread between 2-year and 10-year rates decreased by 0.22% over Q2. Credit spreads of investment grade corporate bonds generally tightened during Q2. Lower quality BBB bonds continued to outperform higher quality (AAAA) bonds and longer maturity bonds outperformed short and intermediate bonds.

Overall, the Fund benefited from declining Treasury yields and tightening credit spreads. Security selection was a primary driver of performance. The Fund seeks to add value by focusing on stable to improving credit profiles and selectively participating in new issues that provide opportunity for significant spread compression relative to the benchmark. Additionally, the Fund's overweight to BBB rated securities provided positive performance relative to the benchmark. Sector allocation was broadly neutral and duration effects were minimal to relative performance.

Sector overweights are in the Financials, Utilities and Telecommunication Services sectors. We prefer companies that focus on the U.S. market, generate consistent cash flow and are in the process of reducing debt. The regulatory environment in the Financials and Utilities sectors has had a favourable impact on the credit profile of these companies.

We continue to favour large companies with stable to improving credit profiles. We avoid companies that are likely to finance large acquisitions with debt or are likely to engage in shareholder-friendly activity at the expense of bondholders. Interest rate positioning relative to the benchmark continues to be largely neutral. Our philosophy is grounded in a tight risk management focus which reinforces our belief that interest rate calls are difficult to time and expensive when wrong.

* Net of fees and expenses for the O share class

Important Information:

This information is intended for Professional Investor use only. Not for public distribution.

No investment should be made in one of these products without careful consideration of the Prospectus for the Funds and the Key Investor Information Document for the relevant Sub-Fund, each available at www.rbcgam.com or from your contact at RBC Global Asset Management.

This document is being provided by RBC Global Asset Management (UK) Limited, part of RBC Global Asset Management. This document may not be reproduced in whole or part, and may not be delivered to any person without the consent of RBC Global Asset Management. This document is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any investment strategy and should not be construed as tax or legal advice. Not all products, services or investments described herein are available in all jurisdictions and some are available on a limited basis only, due to local regulatory and legal requirements.

Past performance is not indicative of future results. The information contained in this report has been compiled by RBC Global Asset Management and/or its affiliates from sources believed to be reliable, but no representation or warranty, express or implied is made to its accuracy, completeness or correctness. With all investments there is a risk of loss of all or a portion of the amount invested.

This document contains the current opinions of RBC Global Asset Management and is not intended to be, and should not be interpreted as, a recommendation of any particular security, strategy or investment product. Unless otherwise indicated, all information and opinions herein are as of the date of this document. All information and opinions herein are subject to change without notice.

RBC Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management Inc., RBC Global Asset Management (UK) Limited, BlueBay Asset Management LLP, BlueBay Asset Management USA LLC and the asset management division of RBC Investment Management (Asia) Limited, which are separate, but affiliated corporate entities.

RBC Global Asset Management (UK) Limited is authorised and regulated by the Financial Conduct Authority.

®/™ Trademark(s) of Royal Bank of Canada.

