



RBC Funds (Lux) – U.S. Small Cap Value Equity Fund – First Quarter 2018 Commentary

In the first quarter of 2018, the Fund returned -3.9%* underperforming its benchmark, the Russell 2000 Value Index (USD), which returned -2.6%.

Equity markets faced a challenging quarter, given macroeconomic concerns about inflation, higher interest rates and trade tensions that threatened to overshadow the strength of the underlying economy and solid company fundamentals. Heading into 2018, despite reasonably high expectations of continued strong results from Q4 into Q1, investors reverted to a more defensive posture. However, these fears appear overblown as there are several catalysts in place to fuel the U.S. economy that we believe should spur further acceleration in economic growth.

The Russell 2000 Value index also had a challenging quarter as nine out of the 11 economic sectors posted negative returns. The worst performing sectors included telecommunication services, Energy and Real Estate, while the Healthcare and Financials sectors were the only positive sectors. The Fund is modestly underweight to Energy, has no holdings in the tiny Telecommunication Services sector, and is moderately underweight to the benchmark's Real Estate, Healthcare and Financials weightings.

Adverse stock selection was concentrated within the economically sensitive Consumer Discretionary and Industrials sectors as investors took a more defensive posture in the first quarter. This was partially offset by favourable stock selection within the Energy sector. Overall, the portfolio's sector allocation decisions contributed modestly to returns with the Fund's moderate underweights to the poor performing Real Estate and Energy sectors boosting performance.

The Fund focuses on neglected small-cap companies with attractive long-term fundamentals, near-term profitability improvement potential, and low relative valuations. The Fund emphasises market leaders with proven products or services, sustainable competitive advantages, solid balance sheets, and attractive cash flows. Downside protection is sought through the portfolio's superior return on equity (ROE) and balance sheet profile compared to the index and market leadership positions of most portfolio companies. The Fund continues to trade at a valuation discount to the Russell 2000 Value Index on several measures while providing superior projected earnings growth and ROE.

* 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.