



RBC Funds (Lux) – U.S. Small Cap Value Equity Fund – Fourth Quarter 2017 Commentary

In the Fourth quarter of 2017, the Fund returned 3.6%* outperforming its benchmark, the Russell 2000 Value Index (USD), which returned 2.0%.

The major story of the fourth quarter 2017 was the passage of the Tax Reform Bill – the largest overhaul of the U.S. tax system in more than 30 years, and the Republican Party's first major legislative win under President Trump. The ~\$1.5T plan, which goes into effect in 2018, will cut the corporate tax rate from 35% to 21%. While the late quarter passage of the bill ultimately limited its impact on market returns in the 4th quarter, the anticipation and subsequent passage of this bill along with continued strong economic data helped infuse the markets with optimism heading into year-end.

Favourable stock selection drove returns primarily within the Financials, Healthcare and Industrials sector, however this was partially offset by adverse stock selection within the Consumer Discretionary sector. Overall, the portfolio's sector allocation decisions contributed modestly to returns with the strategy's significant overweight to the strong performing industrials sector boosting performance, though the residual cash weighting was negative for returns.

The Small Cap Equity Fund focuses on neglected small-cap companies with attractive long-term fundamentals, near-term profitability improvement potential, and low relative valuations. The Fund emphasizes market leaders with proven products or services, sustainable competitive advantages, solid balance sheets, and attractive cash flows. While sector weightings are a result of bottom-up research and stock selection, the Fund remains positioned for economic recovery with overweight positions in the economically sensitive Industrials, Materials, and Consumer Discretionary sectors.

* Net of fees and expenses for the O share class

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