



RBC Funds (Lux) – U.S. Small Cap Value Equity Fund – First Quarter 2019 Commentary

In the first quarter of 2019, the Fund returned 12.7%* outperforming its benchmark, the Russell 2000 Value Index (USD), which returned 11.9%.

Following one of the worst Decembers on record which concluded a dismal 2018, markets rebounded in January and, despite some volatility, equity markets remained strong throughout the quarter. While a bounce-back rally was not entirely unexpected, the primary drivers of the markets' optimism were increased expectations of a U.S./China trade agreement, a far more accommodative U.S. Federal Reserve (Fed), and some investors beginning to invest due to fear of missing out on another market rally. Despite these strong results, the markets still needed to shrug off a litany of challenges including ongoing concerns about the sustainability of global economic growth, mixed U.S. economic data, and significant geopolitical uncertainty.

The Fund's outperformance was primarily due to favourable stock selection, while adverse sector allocation decisions detracted modestly from returns for the period. Favourable stock selection within the Consumer Discretionary, Communication Services, and Financials sectors more than offset adverse stock selection within the Energy and Healthcare sectors. The Fund's modest underweight to the relatively strong Information Technology sector detracted from returns from a sector allocation standpoint.

The Fund's strategy 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. While sector weightings are a result of bottom-up research and stock selection, the Fund remains positioned for economic recovery. Downside protection is sought via the superior return on equity and balance sheet profile of the portfolio compared to the Index and the market leadership

* Net of fees and expenses for the O share class

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