



RBC US Small Cap Core Equity

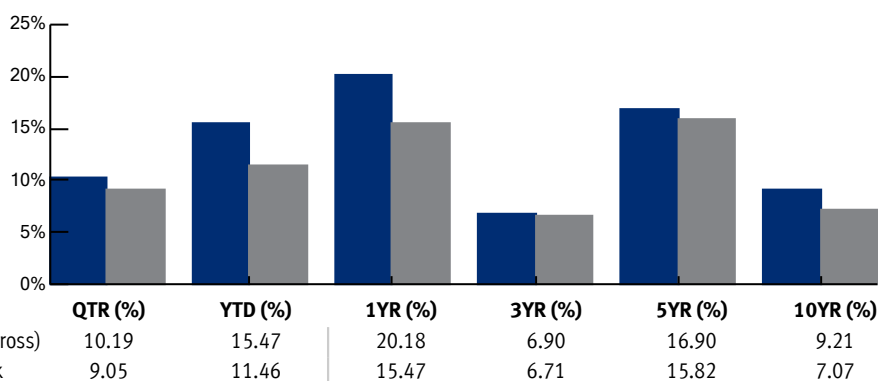
Quarterly Commentary

The Russell 2000 Index had a strong quarter as eight out of the 11 economic sectors registered positive returns. The best performing sectors this quarter included information technology, healthcare, and materials, while telecommunication services and utilities were the worst performing sectors. The strategy is moderately underweight information technology and utilities, significantly underweight health care, modestly overweight to the materials sector, and has no holdings in telecommunication services.

Favorable stock selection in industrials, information technology, and consumer discretionary contributed the most to returns. Adverse stock selection in the healthcare sector and the significant overweight to the consumer discretionary sector detracted the most from performance.

The strategy focuses on neglected small cap companies with attractive long-term fundamentals, near-term profitability improvement potential, and low relative valuations. While sector weightings are a result of bottomup research and stock selection, the strategy remains positioned for economic recovery with overweight positions in the economically sensitive industrials, materials, and consumer discretionary sectors.

Investment Performance



Past performance is not indicative of future results.

Source: RBC Global Asset Management, Russell, FactSet

Returns include the reinvestment of all income. All returns for periods greater than one year are shown on an annualized basis.

Inception of the performance record is 1.9.91. Performance is presented as supplemental to the "Performance Presentation & Disclosures" which contains additional information regarding calculation of performance data.

Strategy Overview

- \$2,444 million Assets Under Management
- Inception: September 1991
- Benchmark: Russell 2000 Index
- Vehicles: Separate Account, U.S. Mutual Fund, Canadian Mutual Fund

Investment Philosophy & Style

- Belief that strong absolute risk-adjusted returns can be generated over time by investing in neglected companies with:
 - Sound long-term business fundamentals
 - Near-term profitability improvement
 - Low valuations at the time of purchase

Investment Process

- Begin with universe of approximately 2,300 publicly traded companies with market capitalization ranges within the range of the Russell 2000 index
- Emphasis on companies concentrated in the lower end of the market cap scale, between \$200 million and \$1 billion, which generally have little analyst coverage and are not as efficiently valued
- In-depth and rigorous long-term fundamental research drives security selection

Portfolio Construction

- Well-diversified portfolios holding 50 - 80 issues
- Maximum in a single security: 5%
- Majority of returns sought from stock selection
- Fully invested in equities; no market timing
- Low portfolio turnover

Investment Team

Lance James, Lead Portfolio Manager
Investment Experience: 36 years

George Prince, Portfolio Manager
Investment Experience: 21 years

Stephen E Kylander, Senior Portfolio Manager
Investment Experience: 30 years

Richard Johnson, CPA, Senior Equity Analyst
Investment Experience: 41 years

Eric Autio, Senior Equity Analyst
Investment Experience: 14 years

Murphy O'Flaherty, Senior Equity Analyst
Investment Experience: 21 years

Michael Schantz, Institutional Portfolio Manager
Investment Experience: 16 years

About RBC Global Asset Management

- Over \$290 billion Assets Under Management
- Offices in North America, Europe and Asia
- Over 300 investment professionals globally
- Part of Royal Bank of Canada, one of the highest rated, largest and safest banks in the world*

*Ratings: S&P: AA-, Moody's: Aa3 (Bloomberg, 30.09.16). Ranked 5th largest bank in North America and 11th globally based on market capitalization (Bloomberg, 30.09.16).

Past performance is not indicative of future results. Source: RBC Global Asset Management, Russell, FactSet

¹Supplemental information complements the RBC US Small Cap Core Equity composite presentation as provided in the "Performance Presentation & Disclosures". The information presented is derived from the representative account of the strategy. The representative account is the account in the composite that most closely reflects the current portfolio management style for the strategy.

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Risk Characteristics

10 Years Through 30.9.16

	Alpha (%)	Beta	Standard Deviation (%)	R-Squared (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio
Strategy (Gross)	2.0	1.0	20.4	95.4	102.8	98.1	0.4
Benchmark	-	1.0	19.9	100.0	100.0	100.0	0.3

Portfolio Characteristics¹

	Strategy	Benchmark
Profitability		
Return on Equity (Trailing 12 Months)	11.5%	8.2%
EPS Growth (Forward 12 Months)	2.4%	1.5%
Valuation		
Price/Earnings Ratio (Forward 12 Months)	16.1	17.7
Price/Book Ratio (Trailing 12 Months)	2.9	2.4
Price/Sales Ratio (Trailing 12 Months)	1.9	2.2
Risk		
Beta vs Russell 2000 (Trailing 10 Years)	1.0	1.0
Standard Deviation (Trailing 10 Years)	20.4	19.9
Long-Term Debt/Total Capitalization (Trailing 12 Months)	27.3%	32.3%
Other		
Weighted Average Market Capitalization (Millions)	\$1,949	\$1,894
Number of Holdings (Excluding Cash)	78.0	1961.0
Active Share	94.9%	-

Sector Allocation¹

	Strategy (%)	Benchmark (%)
Industrials	25.9	14.1
Consumer Discretionary	21.1	12.6
Financials	17.6	17.5
Information Technology	13.8	18.1
Health Care	8.0	14.2
Materials	5.0	4.7
Energy	3.9	3.2
Real Estate	2.6	8.2
Utilities	1.6	3.8
Consumer Staples	0.5	3.0
Telecommunication Services	0.0	0.7

Top Ten Holdings¹

Company Name	Weight (%)
Universal Electronics Inc	4.4
Patrick Industries Inc	3.8
Compass Diversified Holdings	3.3
AZZ Inc	2.9
West Pharmaceutical Services Inc	2.7
InterDigital Inc/PA	2.6
Tyler Technologies Inc	2.5
AMERISAFE Inc	2.5
Astronics Corp	2.5
Synchronoss Technologies Inc	2.5

Inception Date: September 1, 1991

Benchmark: Russell 2000 Index

Currency: USD

Annual Returns

Year End	Composite Gross Return (%)	Composite Net Return (%)	Benchmark Return (%)	Composite 3-Yr St Dev (%)	Benchmark 3-Yr St Dev (%)	Number of Portfolios	Internal Dispersion (%)	Composite Assets (millions)	Firm Assets (millions)
2006	21.85	20.79	18.37	12.26	13.75	3	-	167.9	158,983.2
2007	-1.49	-2.39	-1.57	12.74	13.16	5	0.48	191.0	207,926.9
2008	-30.98	-31.57	-33.79	18.90	19.85	4	0.55	113.2	164,090.1
2009	35.42	34.24	27.17	24.89	24.83	5	0.26	172.5	228,136.6
2010	31.64	30.46	26.85	28.19	27.69	4	0.28	240.1	252,397.6
2011	0.95	0.26	-4.18	26.61	24.99	7	0.61	281.8	244,857.4
2012	17.25	16.47	16.35	21.85	20.20	11	-	522.3	279,416.3
2013	39.56	38.17	38.82	17.40	16.45	14	0.62	1,143.3	296,003.0
2014	5.32	4.28	4.89	13.09	13.12	26	0.42	1,821.2	302,064.4
2015	-6.42	-7.35	-4.41	14.11	13.96	28	0.36	1,987.8	276,979.3
YTD 2016	15.47	14.61	11.46	15.01	14.35	30	0.32	2,172.3	297,903.2

Description of the Firm: For the purposes of Global Investment Performance Standards (GIPS®), RBC Global Asset Management is the asset management division of Royal Bank of Canada (RBC), operating under the following brands: RBC Global Asset Management (RBC GAM) in Canada, the U.S. (institutional), the U.K. and Hong Kong; Phillips, Hager & North Investment Management (institutional); and BlueBay Asset Management (institutional). With offices around the world, RBC GAM offers a full range of global investment solutions in cash management and fixed income, equity, balanced, alternative and specialty investment strategies through mutual funds, hedge funds, pooled funds and separately managed accounts. The RBC GAM group of companies has more than C\$383 billion (US\$277 billion) in assets under management as at December 31, 2015. RBC purchased Phillips, Hager & North Investment Management, including the assets of BonaVista Asset Management, on May 1, 2008, and BlueBay Asset Management on December 17, 2010. A complete list and description of the firm's composites and performance results is available upon request.

Compliance Statement: RBC GAM claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. RBC GAM has been independently verified for the periods January 1, 2002 through December 31, 2015. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The Small Cap Core Equity composite has been examined for the periods January 1, 2002 - December 31, 2015. The verification report(s) is/are available upon request.

Composite Description: The Small Cap Core Equity Composite consists of accounts that invest in the common stocks of companies that we believe possess above-average growth potential that is underestimated by the market and that provide attractive valuations. Target companies generally have market capitalizations within the same range as the Index upon initial purchase.

Benchmark: The benchmark for this composite is the Russell 2000 Index, which measures the performance of the 2,000 smallest companies by market cap in the more broadly based Russell 3000 Index, which in turn represents 98% of the U.S. equity market cap. Index returns are provided for comparison purposes to represent the investment environment existing during the time periods shown. An index is fully invested, includes the reinvestment of dividends and capital gains, but does not include any transaction costs, management fees, or other costs. Holdings of each separately managed account in a composite will differ from the index. An investor may not invest directly in an index.

Gross of Fees: Gross of fees performance returns are presented before management fees, but after all trading expenses. Returns are presented net of withholding taxes on dividends, interest income and capital gains where applicable.

Net of Fees: Net of fee performance is calculated using the maximum stated annual fee of 1.00% applied monthly. Prior to January 1, 2013 net of fee performance was calculated using annual fees. Prior to May 8, 2006, net of fee performance reflects the maximum stated fee of 1.00% calculated and applied monthly.

Performance Calculations: Results are based on all fully discretionary accounts meeting the composite definition, including those accounts no longer with the firm. Returns are shown in U.S. Dollars, and include the reinvestment of all income. Additional information regarding policies for valuing portfolios, calculating performance, and preparing presentations is available upon request. Past performance is not indicative of future results.

Composite Dispersion: The composite dispersion of annual returns is indicated by the performance of individual accounts representing the equal weighted standard deviation of returns. Dispersion of returns is calculated for portfolios included in the composite for the full year.

3-Year Standard Deviation: Periods with less than 3 years of data will show "n/a".

Derivatives, Leverage and Short Positions: None of these strategies are currently employed by any accounts in this composite.

Cash Flow Policy: As of April 1, 2015 the significant cash flow policy was removed from the composite. Prior to that date, composite policy required the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of at least 10% of portfolio assets. The temporary removal of such an account occurred at the beginning of the month in which the significant cash flow occurred and the account re-entered the composite the first full month of being fully invested.

Fee Schedule: 1.00% on first \$10 million; 0.90% on next \$15 million; 0.80% on next \$25 million; 0.70% on assets over \$50 million. Advisory fees are described on this page and in Form ADV Part 2A. RBC GAM reserves the right to negotiate all advisory fees.

Minimum Account Size: There is no minimum account size for this composite.

Creation Date: This composite was created on May 8, 2006 and has an inception date of September 1, 1991.

Composite History: Performance presented through May 5, 2006 is for a registered fund sub-advised by the Portfolio Management Team while affiliated with a prior firm. The advisor to the fund through April 5, 2004 was Jones and Babson, Inc. Jones and Babson was an affiliated company of RBC GAM beginning May 1, 2003. RBC GAM has been the advisor to the fund since April 16, 2004. Either directly or through its affiliate, Jones and Babson, RBC GAM has had a role in sub-advisor selection of this fund since May 1, 2003. On May 8, 2006, the primary decision maker for the Small Cap Core strategy joined RBC GAM and continued to manage the strategy using the same philosophy and process.

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