

RBC US Small Cap Value Equity

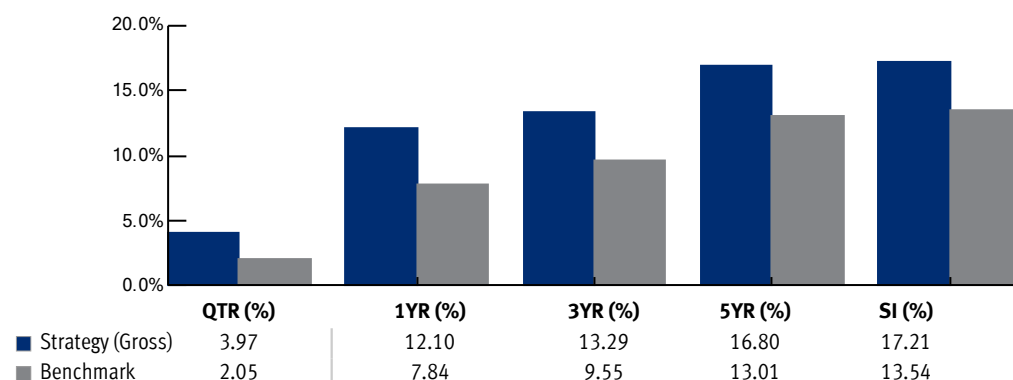
Quarterly Commentary

US Equity markets performed well, supported by accelerating economic growth and expectations of fiscal policy stimulus. Underlying this growth was higher retail spending and housing data. Retailers experienced a strong start to the holiday shopping season due to more seasonal weather, a tight labour market and high consumer confidence. Within the housing market, single-family housing starts rose significantly in November, and both existing and new home sales experienced remarkable growth.

The Russell 2000 Value index had a strong quarter as seven out of 11 economic sectors posted positive returns. The best performing sectors were consumer discretionary, energy and consumer staples, while telecoms and real estate were the worst. The strategy is moderately overweight the benchmark in consumer discretionary, modestly underweight energy, consumer staples and real estate, and has no holdings in telecoms.

Favourable stock selection drove returns primarily in financials, health care and IT but this was partially offset by adverse stock selection within the consumer discretionary sector. Sector allocation contributed modestly to returns as a significant overweight to the strong-performing industrials sector boosted performance.

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 annualised basis.

Inception of the performance record is 1.7.12. Performance is presented as supplemental to the "GIPS® Compliant Presentation" which contains additional information regarding calculation of performance data.

Strategy Overview

- \$393 million Assets Under Management
- Inception: July 2012
- Benchmark: Russell 2000 Value Index
- Vehicles: Separate Account, U.S. Mutual Fund, SICAV

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 1,500 publicly traded companies with market capitalisations within the range of the Russell 2000 Value Index
- Intelligence pool includes more than 1,000 face-to-face company meetings per year
- In-depth and rigorous long-term fundamental research drives security selection

Portfolio Construction

- Well-diversified portfolios holding 70 - 100 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 F. James, Lead Portfolio Manager
Industry Experience: 37 years

Eric Autio, Senior Equity Analyst
Industry Experience: 15 years

George Prince, Portfolio Manager
Industry Experience: 22 years

Richard C. Johnson, Senior Equity Analyst
Industry Experience: 42 years

Murphy O'Flaherty, Senior Equity Analyst
Industry Experience: 22 years

Alison Kerivan, Equity Analyst
Industry Experience: 22 years

Michael Schantz, Director, Equity Client Service
Industry Experience: 17 years

Emily Moran, CFA, Associate Portfolio Manager
Industry Experience: 6 years

About RBC Global Asset Management

- Over \$335 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: A1 (Bloomberg, 31.12.2017). Ranked 5th largest bank in North America and 10th globally based on market capitalisation (Bloomberg, 31.12.2017).

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

¹Supplemental information complements the RBC US Small Cap Value Equity Composite presentation as provided in the "GIPS® Compliant Presentation". 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

Since Inception Through 31.12.17

	Alpha (%)	Beta	Standard Deviation (%)	R-Squared (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio
Strategy (Gross)	4.8	0.9	12.0	94.7	98.1	79.1	1.4
Benchmark	-	1.0	13.4	100.0	100.0	100.0	1.0

Portfolio Characteristics¹

	Strategy	Benchmark
Profitability		
Return on Equity (Trailing 12 Months)	8.7%	7.3%
EPS Growth (Est FY1)	8.9%	3.6%
Valuation		
Price/Earnings Ratio (Forward 12 Months)	16.6	17.2
Price/Book Ratio (Trailing 12 Months)	1.8	1.7
Price/Sales Ratio (Trailing 12 Months)	1.8	2.2
Risk		
Beta vs Russell 2000 Value (Since Inception)	0.9	1.0
Standard Deviation (Since Inception)	12.0	13.4
Long-Term Debt/Total Capitalization (Trailing 12 Months)	31.4%	28.5%
Other		
Weighted Average Market Capitalization (Millions)	\$2,585	\$2,102
Number of Holdings (Excluding Cash)	86.0	1383.0
Active Share	92.8%	-

Sector Allocation¹

	Strategy (%)	Benchmark (%)
Financials	27.2	30.4
Industrials	19.8	12.1
Consumer Discretionary	12.7	10.9
Real Estate	8.6	10.3
Information Technology	7.8	9.0
Materials	6.8	4.5
Energy	6.0	6.8
Utilities	5.3	6.6
Health Care	4.1	6.2
Consumer Staples	1.7	2.8
Telecommunication Services	0.0	0.5

Top Ten Holdings¹

Company Name	Strategy (%)
Compass Diversified Holdings	2.5
Chemical Financial Corp	2.2
Portland General Electric Co	2.1
Columbus McKinnon Corp/NY	2.1
Reliance Steel & Aluminum Co	2.0
Spire Inc	2.0
Synovus Financial Corp	1.9
Texas Capital Bancshares Inc	1.9
Gray Television Inc	1.8
Greenbrier Cos Inc/The	1.8

GIPS® Compliant Presentation, as at December 31, 2017

RBC GAM U.S. Equity - Small Cap Value

Inception Date: July 1, 2012

Benchmark: Russell 2000 Value 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)
2012/07 - 2012/12	10.19	10.19	9.07	n/a	n/a	1	-	0.6	279,416.3
2013	33.09	31.76	34.52	n/a	n/a	1	-	0.7	296,003.0
2014	12.36	11.24	4.22	n/a	n/a	1	-	0.8	302,064.4
2015	-1.58	-2.56	-7.47	11.80	13.46	4	-	136.1	276,979.3
2016	31.78	30.47	31.74	14.11	15.50	4	1.22	217.4	289,538.6
2017	12.10	10.98	7.84	13.12	13.97	6	0.31	389.7	331,885.2

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\$388 billion (US\$289 billion) in assets under management as at December 31, 2016. 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, 2016. 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 U.S. Equity - Small Cap Value composite has been examined for the periods July 1, 2012 - December 31, 2016. The verification and performance examination reports are available upon request.

Composite Description: The Small Cap Value Composite consists of accounts that invest in small cap companies that we believe are undervalued by the market.

Benchmark: The Russell 2000 Value Index measures the performance of the small cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. 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 index is unmanaged and 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 returns are calculated using the maximum stated annual fee of 1.00% applied monthly. Prior to January 1, 2013 net of fee performance was calculated using actual fees. Beginning July 1, 2012, one non-fee paying account was included in the composite. The account represented 100% of the composite assets as of year-end in 2012, 2013, and 2014.

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 account 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; 0.95% on next \$15 million of assets; 0.85% on next \$25 million of assets; and 0.75% on assets exceeding \$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 and has an inception date of July 1, 2012.

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