



Quarterly Commentary

Emerging market equities had a challenging quarter in the face of an unexpected and rapid oil price decline. Russia turned in the worst performance, whilst Chinese equities were boosted by a surprise interest rate cut. Energy and Materials continued to be the laggards, while Financials and IT were the only two sectors to post positive returns.

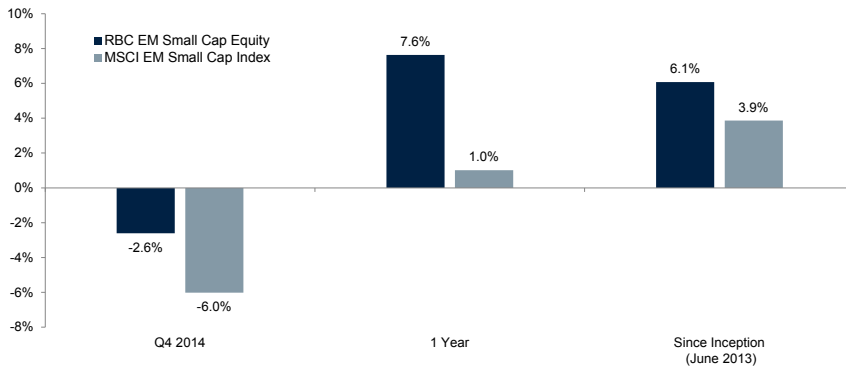
The strategy outperformed the benchmark by 3.4%. Strong security selection in the Consumer Staples, IT and Materials sectors drove returns as did the zero weight in Energy and the overweight to the Telcos sector.

Detracting from returns was security selection in Healthcare and Telcos and the overweight to Consumer Staples.

We believe our focus on company fundamentals within the framework of long-term investing will help to navigate the complexities of emerging markets. As the divergence across countries, industries and companies looks set to last, our thematic research will be an important ally to diligent stock research as we aim to continue delivering attractive risk-adjusted returns.

Investment Performance

Trailing performance as of 31 December 2014



Portfolio Characteristics

	RBC EM SC Equity	MSCI EM SC Index
CFROI	14.8%	8.2%
EBITDA Margin	28.7%	13.8%
ROE (Trailing 12 mos)	15.7%	5.0%
Weighted Avg Market Cap	\$2.1bn	\$1.0bn
Number of Holdings	64	1803
Market Cap Distribution		
> \$20 billion	0.0%	0.0%
\$10 - \$20 billion	1.7%	0.0%
\$3 - \$10 billion	19.8%	4.8%
\$1.5 - \$3 billion	37.2%	15.1%
< \$1.5 billion	41.3%	80.1%

Top Ten Holdings

Company Name	Country	Weight
Security Bank	Philippines	3.4%
Delta Electronics	Thailand	3.1%
Airtac International	Taiwan	3.0%
Wuxi Pharmatech	China/HK	2.9%
Aeon Thana	Thailand	2.8%
Ace Hardware	Indonesia	2.7%
Cummins	India	2.7%
Sino Biopharmaceuticals	China/HK	2.6%
Chroma	Taiwan	2.5%
DGB Financial	Korea	2.4%

Why EM Small Cap Equities

- **Undiscovered opportunities.** 75% of large cap stocks have 10 or more analysts covering them while close to half of small cap stocks have no analyst coverage.
- **Wider choice.** The EM Small Cap index has approximately ten times more securities than the large cap universe.
- **Domestic bias.** Offer a much larger exposure to the existing domestic demand and consumption secular themes.
- **Superior returns.** EM small caps have seen CAGR of 16.6% over the past decade vs. 13.2% for the larger EM companies.
- **Risk diversification.** Smaller companies offer significant diversification benefits.
- **Faster growing.** The CAGR of earnings for the MSCI EM Small Cap Index is 22.4% over the last 5 years vs. 15.4% for the MSCI EM Index.
- **Valuations.** EM small caps trade at a 20% valuation discount to EM large caps in price to book terms.
- **High insider ownership.** Many EM small caps are family or founder businesses. Since the early 1990s, family businesses have consistently achieved returns above those of their larger counterparts.

Source: MSCI and Bloomberg, May 2013.

EMERGING MARKETS SMALL CAP EQUITY

31 December 2014

Strategy Overview

- \$178 million Assets Under Management
- Inception: June 2013
- Benchmark: MSCI EM Small Cap Index
- Vehicles: Segregated Account
- Portfolio Manager: Phil Langham

Investment Philosophy & Style

- High cash flow return on investment produces superior long-term returns
- Quality and growth at a reasonable price
- Fundamental research-focused approach drives decision making, ESG focus

Investment Process

- Distinctive top-down thematic research (20-40% of expected contribution)
- In-depth and rigorous company-level research drives security selection (60-80% expected contribution)
- ESG analysis embedded in investment process

Portfolio Construction

- High conviction portfolio of 40-80 holdings
- Majority of returns sought from stock selection
- Maximum in a single security: 5%
- Sector exposure +/- 10% vs benchmark
- Country exposure +/- 10% limit on active allocation at the country level
- Low portfolio turnover: 30-50%

About RBC Global Asset Management

- Over \$300 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*

For more information, please contact:

Paul Williams, Head of EMEA Business Development
 Email: paul.t.williams@rbc.com
 Tel: +44 (0) 20 7429 8269

Anne-Sophie Girault, EMEA Business Development
 Email: anne-sophie.girault@rbc.com
 Tel: +44 (0) 20 7429 8188

Oliver Cooper, EMEA Business Development
 Email: oliver.cooper@rbc.com
 Tel: +44 (0) 20 7429 8126

Kelly Walsh, Head of Consultant Relations
 Email: kelly.walsh@rbc.com
 Tel: +44 (0) 20 7429 8263

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*Ratings: S&P: AA-, Moody's: Aa3 (Bloomberg, 30.09.2014)

Ranked 5th largest bank in North America and 12th globally based on market capitalization (Bloomberg, 30.09.2014)

Ranked 2nd safest bank in North America and 16th globally (Global Finance, September 2014)

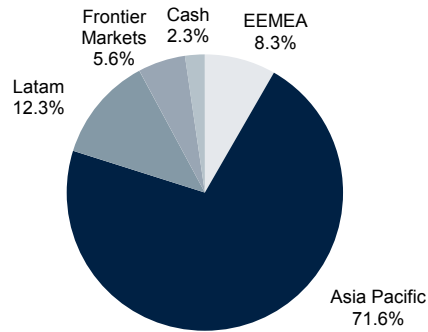
All information as at 31.12.2014 and in US dollars

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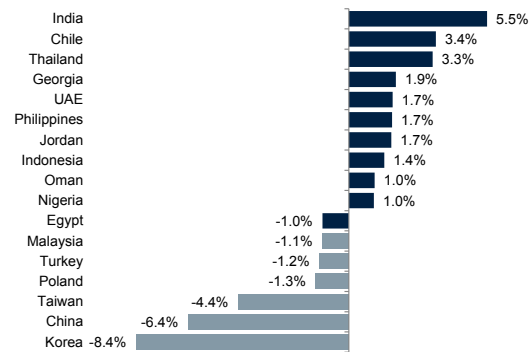


RBC Global Asset Management

Regional Allocation

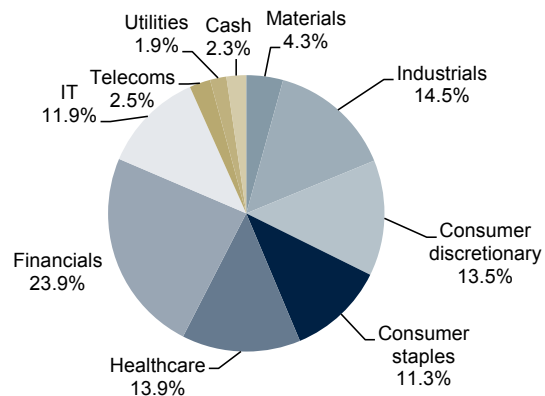


Relative Active Country Weights



Relative active country weights also include: Mexico, Peru and South Africa all at less than 1%. Greece, Qatar, Brazil, Russia, Czech Republic, Hungary and Colombia all at less than -1%.
 Source: MSCI and RBC Global Asset Management

Sector Allocation



Relative Active Sector Weights

