

2016 ANNUAL REPORT

CORPORATE GOVERNANCE & RESPONSIBLE INVESTMENT



Global Asset
Management

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MESSAGE FROM DANIEL E. CHORNOUS

CIO, RBC Global Asset Management

We are pleased to share our 2016 Annual Report, which highlights the significant progress we have made in demonstrating our commitment to responsible investment. RBC Global Asset Management (RBC GAM) continues to believe that integrating environmental, social and governance (ESG) issues into our investment process is part of our fiduciary duty and will enhance the long term performance of our portfolios.

In March 2016, RBC GAM filed our first Principles of Responsible Investment (PRI) Transparency Report. The PRI assesses signatories' approaches to the Principles and we were pleased with our strong results. Specifically, the PRI gave our overall "Strategy & Governance" a score of A+, with a score of A in every other category reported, with the exception of one where we were given a score of B. Also in 2016, the Financial Reporting Council undertook an assessment of signatories to the U.K. Stewardship Code based on the quality of their Code statements. Our Stewardship Code statement ranked Tier 1, the highest level.

Although we have made significant headway in achieving our responsible investment objectives, we will continue to move forward with our program. Success in this area requires that we continue to strive to enhance our investment processes, actively engage with our investee companies and stay abreast of new developments in this constantly evolving area. In addition to this Annual Report, we invite you to visit our Corporate Governance & Responsible Investment website at www.rbcgam.com where you will find additional highlights of our responsible investment achievements.

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Global Asset Management

2016 Highlights

2016 saw RBC GAM¹ further embed ESG considerations into our investment process. In the past year, we have continued to build upon the foundations of our ESG integration strategy, as demonstrated in part by the activities highlighted below.

Principles of Responsible Investment (PRI)

In March 2016, RBC GAM filed our first Transparency Report with the PRI. The PRI assesses signatories' approaches to the Principles based on its assessment methodology. We are very pleased to report that the PRI gave our overall "Strategy & Governance" a score of A+, with a score of A in every other category reported, with the exception of one where we were given a score of B. We continue to look for additional ways to apply the Principles and building on our 2016 Transparency Report results.

UK Stewardship Code

In 2016, the Financial Reporting Council ("FRC") undertook a review of the statements of compliance filed by signatories to the U.K. Stewardship Code. The FRC stated that in order "to improve the quality of reporting against the Code, encourage greater transparency in the market and maintain the credibility of the Code"² signatories will now be "tiered" based on the quality of their Code statements. RBC GAM is pleased to report that our Code Statement was ranked in Tier 1, the highest ranking.

WHAT ARE THE SIX PRINCIPLES OF THE PRI?

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

ESG integration

Our investment teams continue to develop and fine-tune their respective ESG integration processes. Beyond providing the teams with access to the research of three separate ESG research providers, RBC GAM has taken further steps to assist our investment teams by delivering meaningful, ESG-related material that is easily accessible.

For example, in May of 2016, the CGRI team began distributing monthly portfolio-level ESG analysis reports that serve to identify top-level ESG scores and notable ESG issues for approximately 80 funds. This process has been well-received and, in response to feedback from our investment teams, the CGRI team launched a more comprehensive version of the reports. The reports now provide ESG data from multiple providers and highlight issuers whose ESG scores have recently dropped.

2016 also saw the inclusion of ESG metrics into RBC GAM's quantitative analytical tools. Investment teams can now view ESG metrics alongside traditional financial data in order to help bring ESG issues and opportunities to their attention.

We believe that meaningful ESG integration must be driven by our investment teams so that they can determine how ESG-related information can best be incorporated into their investment process in a way that adds value for our clients. We believe that this will lead to thoughtful, innovative approaches. For example, our sovereign debt team was already integrating social and governance factors into the qualitative screen of their Global Fundamentals Model, which they use to help assess the investment merits of sovereign debt, but looked for ways in which environmental risk could be measured.

¹ In this report, references to RBC GAM include one or more of the following: RBC Global Asset Management Inc. (including Phillips, Hager & North Investment Management), RBC Global Asset Management (U.S.) Inc., RBC Global Asset Management (UK) Limited and the asset management division of RBC Investment Management (Asia) Limited.

² Financial Reporting Council. UK Stewardship Code. <https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UKStewardship-Code.aspx>

After studying the issue, the team identified a series of measurable environmental indicators in the areas of ‘climate change’ and ‘natural resource’ risks that they determined may impact creditworthiness, which they then built into their Global Fundamentals Model.

We continue to encourage our investment teams to develop innovative ways to integrate ESG in a manner that will help identify investment risks and opportunities over the long term.

Proxy voting guidelines

In order to consistently vote our shares in the best interests of our clients, RBC GAM annually updates our Proxy Voting Guidelines. In 2016, we further enhanced our guidelines to reflect emerging best practices in corporate governance. For instance, we updated our guidelines to provide our view on proxy access, an issue that gained considerable prominence during the 2015 U.S. proxy season. Further, after witnessing a rise in management proposals seeking to establish an exclusive forum, we updated our guidelines to communicate that a company must demonstrate both a clear need for such a provision and how its application would be in the interests of all shareholders before we will support such a proposal.

For 2017, we anticipate that our main focus will be to provide additional detail in our executive compensation guidelines to better address poor corporate governance practices in this contentious area.

Research and reports

“Investors who understand how to identify and properly manage those [ESG] factors have an opportunity to outperform.”

In 2016, we published the RBC Global Asset Management Responsible Investing Survey Report, which contains the results of our survey of U.S. institutional asset

owners, wealth managers and pension plan consultants and their views regarding ESG. Notably, less than 30% of respondents said they considered ESG investing as a source of alpha and 40% do not see it as tool to mitigate risk. Since not all material ESG factors may be currently reflected in valuations, investors who understand how to identify and properly manage those factors have an opportunity to outperform.

In its 2016 Environmental, Social and Governance Report, our Emerging Markets Equity (EME) team discusses its multi-layered approach to ESG integration. RBC GAM believes

that the integration of ESG provides a competitive advantage to our clients and the EME team demonstrates that this advantage may be particularly pronounced in emerging markets.

Specifically, the EME team notes that because it looks for businesses that are sustainable over the long term, its investments may be impacted by long term ESG issues such as demographic changes, changing consumer preferences and environmental issues like water scarcity. Further, the team invests in markets where ESG standards are still evolving, so focusing on issuers that manage and understand ESG factors helps them identify issuers that may be better positioned to gain a competitive advantage in their industry.

“RBC GAM believes that the integration of ESG provides a competitive advantage to our clients and the Emerging Markets Equity team demonstrates that this advantage may be particularly pronounced in emerging markets.”

The report outlines the team’s approach in detail, providing a thorough discussion on the three pillars of the team’s management of ESG issues: Research, Integration and Active Ownership.

In terms of Research, the team aims to identify ESG factors that can lead to long-term value creation or destruction within companies. The team assesses long-term ESG-related trends, issuers’ management of ESG factors and promotes long-term thinking and the development of ESG best practices within each industry.

When it comes to Integration, the team has developed a bottom-up stock selection process that incorporates ESG factors at every layer. By consistently monitoring issuers’ ESG performance and regularly engaging with management, the team is able to make better informed investment decisions.

Finally, the report highlights the team’s extensive efforts in Active Ownership. Like all of our investment teams, the EME team’s votes are cast in accordance with RBC GAM’s Proxy Voting Guidelines and the team provides input into all non-routine and/or controversial proxy voting matters. As noted above, active engagement is a core part of the team’s investment process.

This comprehensive report is further complemented by ESG research, insights and examples that highlight the team’s integration of ESG factors into the investment process.

Engagement and collaborative initiatives

RBC GAM continues to leverage direct and collaborative engagement on ESG issues to improve our proxy voting and investment decisions. In 2016, we continued to develop our engagement program and our efforts addressed issues ranging from human rights disclosure to potential dilution through equity compensation plans.

Shareholder proposals

After extensive engagement over several years and in collaboration with the British Columbia Investment Management Corporation (bcIMC), RBC GAM filed our first shareholder proposals with a large Canadian mining company asking the company to: i) nominate additional independent board directors with operational mining expertise; and ii) implement changes to the company's governance structure.

Our filing led to further productive engagement, with the company ultimately agreeing to implement the first proposal, nominating an experienced geological and mining engineer as an independent director of the board at the 2016 annual meeting. The company also agreed to nominate an additional independent director with operational mining expertise by the 2017 annual meeting.

After engaging with the independent directors of the board in response to the second proposal, bcIMC and RBC GAM

agreed to withdraw our second proposal in exchange for the company's commitment to provide more detailed disclosure of its corporate governance practices and make improvements to the structure of its executive compensation plan.

We expect our constructive engagement with this company to continue in the years ahead.

Access to nutrition

Launched in 2013, the Global Access to Nutrition Index (ATNI) produces a report of food and beverage manufacturers' nutrition-related commitments, practices and performance worldwide. Although some analyzed companies have improved in these areas, it is the view of many that the industry as a whole has moved too slowly on this front. RBC GAM has committed to join other asset managers and owners in engaging with food and beverage companies on the topic of nutrition in order to improve the nutrition policies, practices and disclosure across the industry.



Direct engagements

Our direct engagements with investee companies on ESG issues can provide meaningful insights that impact our proxy voting and investment decisions. On an ongoing basis, we evaluate opportunities for meaningful engagements that will benefit our clients.

Throughout 2016, we were able to identify numerous investee companies where the disclosure or management of an ESG-related issue could be improved. Further, there was a significant increase in the number of issuers reaching out to engage with us on ESG issues, demonstrating the market's awareness of the growing focus on active ownership. Although many of our engagements are ongoing, below are some highlights of our engagement activities in 2016.

- We engaged with a Canadian financial services company on its highly discretionary and poorly disclosed compensation plan. It appeared to us that the compensation plan allowed for significant use of discretion and with inadequate disclosure, we had no way to evaluate its suitability. The company went on to clarify aspects of the compensation plan and how they directly related to the company's operational structure and lines of business. We encouraged greater disclosure of the plan's components and the rationale behind its design. The company has agreed to explore ways to improve its disclosure in this regard.
- We engaged with a Canadian gold producer on how it was managing its relationship with Aboriginal communities. The company has multiple operational sites near Aboriginal communities and needs to consult and work with these communities in a meaningful and constructive way in order to maintain its social license to operate. Disclosure on its efforts in this area is relatively strong for a company of this size, but our investment team was seeking further information on how the company is managing this risk. The company was able to demonstrate that its board is educated and actively involved in this issue. Further, the company elaborated on its commitment to employ

“As our ESG engagement program develops, we hope to expand our activities in order to capture a wider breadth of engagement topics where doing so will benefit our clients.”

individuals from these communities and communicated that it has opted to delay projects in the past when it did not obtain full support from its Aboriginal partners.

- Our Emerging Markets Equity team engaged with a Latin American bank where the board's new Chair held a personal stake in a competing bank. They communicated that this conflict was unacceptable and urged the Chair to sell his position. After the Chair refused to do so, the team ultimately divested from the company.
- Our Global Equity team engaged with a Filipino food & beverage company on concerns over food quality in Vietnam and supply chain auditing. The company provided additional details regarding its supply chain management and

committed to re-certify and audit its entire supply chain. In addition, the company recognized the need for increased transparency to its customers and stakeholders and is planning to produce its first official CSR report next year. Overall, the team believes that the company's responses are appropriate and is pleased by the company's commitment to increase transparency through a formal CSR report.

- Our Emerging Markets Equity team engaged with multiple companies on the subject of sustainability disclosure during 2016. The team acknowledges the upfront cost of sustainability reporting, but maintains that solid reporting on sustainability initiatives can create a competitive advantage for companies. The team's engagements on this subject led to three companies – one in Mexico, one in India and one in South Africa – formally initiating sustainability reporting programs.

These highlights are only some of the examples of our direct engagement activities from 2016. Overall, our engagements tended to focus on the topics of executive compensation, equity compensation plans and environmental oversight. As our ESG engagement program develops, we hope to expand our activities in order to capture a wider breadth of engagement topics where doing so will benefit our clients.



Canadian Coalition for Good Governance (CCGG)

Representing the interests of institutional investors, CCGG promotes good governance practices in Canadian public companies. It also seeks to improve the regulatory environment to promote the efficiency and effectiveness of the Canadian capital markets and align the interests of boards and management with those of their shareholders. RBC GAM is a founding member of CCGG and our Global Chief Investment Officer, Daniel E. Chornous, is the immediate past chair of CCGG and current vice-chair. RBC GAM is also represented on CCGG's Public Policy Committee.

“RBC GAM also participates in CCGG’s policy initiatives designed to encourage issuers to adopt governance best practices.”

RBC GAM is an active participant in CCGG’s collective engagement program. In 2016, CCGG completed 47 collective engagements, with RBC GAM directly attending 4 of those engagements.

In 2016, we also actively participated in a variety of regulatory initiatives through CCGG relating to corporate governance and shareholder rights, including the following submissions:

- Submission to Finance Canada: Review of Federal Financial Sector Framework
 - Submission to Ministry of Government and Consumer Services: Ontario Business Law Advisory Council Report
 - Submission to the Alberta Securities Commission: Request for Comments on proposed amendments to National Instrument 58-101 Disclosure of Corporate Governance Practices and Form 58-101F1 Corporate Governance Disclosure regarding gender diversity and term limits
 - Letter to the U.S. Senate Committee on Banking, Housing and Urban Affairs in support of the Council of Institutional Investors’ letter against the proposed regulation of proxy advisors
 - Submission to the TSX: Comment letter on proposed TSX amendments re: disclosure of security based compensation arrangements
 - Submission to OSC: Draft 2016-2017 Statement of Priorities
- RBC GAM also participates in CCGG’s policy initiatives designed to encourage issuers to adopt governance best practices. We actively support CCGG’s ongoing, multi-year initiatives to improve shareholder rights, including:
- encouraging companies, who have not yet done so, to adopt majority voting policies
 - working to change the law so that directors cannot be elected in any Canadian company if they do not receive a majority of votes in their favour
 - encouraging companies to voluntarily adopt “say on pay” advisory resolutions
 - working to change the law to make “say on pay” mandatory for all Canadian companies

Collaborative initiatives

Council of Institutional Investors

As a member of the Council of Institutional Investors (CII), RBC GAM looks for opportunities to contribute to the advancement of corporate governance practices in the markets in which we are invested. In 2016, we lent our support to two key initiatives spearheaded by CII.

In September, 2016, RBC GAM signed a CII letter opposing proposed legislation regarding proxy advisory firms under consideration by the U.S. House of Representatives. It is our view that the tightening of regulations on proxy advisory firms would be detrimental to asset owners, asset managers and their clients by: inhibiting these firms' ability to uphold their fiduciary obligation to their clients; motivating the firms to serve companies rather than investors; and generally weakening corporate governance standards in the U.S. We continue to monitor the progress of this proposed legislation.

In November, 2016, RBC GAM signed a letter supported by CII alerting the Tokyo Stock Exchange of our concerns surrounding pending proposals from the Financial Services Agency's (FSA) Financial Disclosure Working Group. The proposals in question would remove the requirement for Japanese companies to publish a full-year financial statement document with its fourth quarter earnings digest. If this document is not submitted

in conjunction with the earnings digest, shareholders may not have all of the relevant information required to cast a fully-informed proxy vote at companies' upcoming meetings. Accordingly, the letter suggested that companies should be permitted to hold their annual general meetings later in the year, providing shareholders with enough time to receive the financial statement document and consider its contents before casting their votes.

Increasing female representation on boards

The Royal Bank of Canada is a member of the 30% Club of Canada. The 30% Club is an international organization that "believes that gender balance on boards not only encourages better leadership and governance, but diversity further contributes to better all-round board performance, and ultimately increased corporate performance for both companies and their shareholders."³

The members of the 30% Club are committed to achieving a minimum of 30% women on corporate boards, and 30% women at senior management level by 2020. RBC GAM endorses the goals of the 30% Club and actively encourages the companies we are invested in to increase board diversity by adopting board policies and providing appropriate disclosure to shareholders.



³The 30% Club. Who We Are. <https://30percentclub.org/about/who-we-are>

Proxy voting

RBC GAM takes a very active approach to our proxy voting. We see proxy voting as an important aspect of engagement that adds value to the portfolios we manage on behalf of our clients. We have adopted our custom RBC GAM Proxy Voting Guidelines which outline our expectations for ESG best practices. Each year, we evaluate our guidelines in order to ensure that we remain at the forefront of corporate governance and active ownership. We have dedicated personnel whose primary responsibility is to oversee and manage the proxy voting for all of our funds. Any unusual circumstances or controversial ballot items are discussed with our investment teams and any controversial voting decisions or potential conflicts of interest are escalated to our Proxy Voting Committee.

How we voted⁴

Below is a snapshot of our voting in 2016.

Summary of overall voting statistics

	Canada	U.S.	Overseas	Total
Number of Proposals voted	3,815	12,671	15,797	32,283
Votes WITH management	3,235	11,146	14,346	28,727
Votes AGAINST management	580	1,525	1,451	3,556
% of votes AGAINST management	15.2%	12.0%	9.2%	11.0%

Overview of our voting record by issue

Item category	Canada			U.S.			Overseas			Total		
	WITH management	AGAINST management	% AGAINST management	WITH management	AGAINST management	% AGAINST management	WITH management	AGAINST management	% AGAINST management	WITH management	AGAINST management	% AGAINST management
Adopt Jurisdiction of Incorporation as Exclusive Forum	0	1	100%	0	11	100%	0	0	N/A	0	12	100%
Require Independent Board Chairman	0	0	N/A	0	41	100%	0	1	100%	0	42	100%
Adopt Proxy Access Right	0	0	N/A	2	55	96%	1	0	0%	3	55	95%
Amend/Approve Option or Stock Plan	7	100	93%	3	312	99%	19	37	66%	29	449	94%
Provide Right to Act by Written Consent	0	0	N/A	3	15	83%	0	0	N/A	3	15	83%
Political Contributions and Lobbying Disclosure	1	0	0%	10	54	84%	0	1	100%	11	55	83%
Climate Change	1	0	0%	3	15	83%	3	0	0%	7	15	68%
Advisory Vote on Golden Parachutes	0	1	100%	28	15	35%	0	0	N/A	28	16	36%
Approve Remuneration Report	134	12	8%	958	102	10%	336	104	24%	1,428	218	13%
Approve Remuneration Policy	0	0	N/A	1	0	0%	35	4	10%	36	4	10%
Elect Director (non-cumulative, non-bundled)	2,462	396	14%	8,309	658	7%	4,833	452	9%	15,604	1,506	9%
Ratify Auditors/ Approve Auditors and Remuneration	324	14	4%	1,145	54	5%	708	31	4%	2,177	99	4%

Note that the statistics for the 'Adopt Proxy Access Right' Item Category do not include 12 proposals for proxy access put forward by management. In these cases, we voted **WITH** management on all 12 proposals.

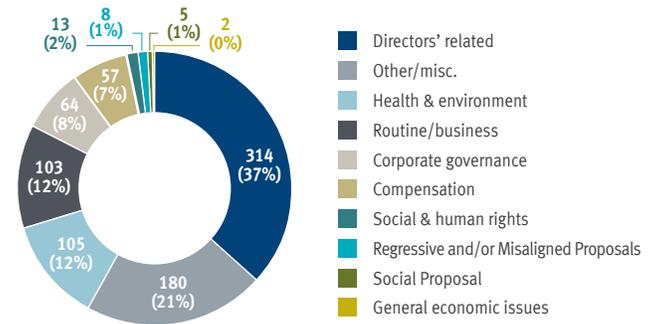
⁴ Voting statistics account for proxy votes submitted by RBC GAM and may include instances where RBC GAM's proxy votes were rejected at the time of meeting. Voting statistics exclude instances where RBC GAM intentionally did not vote due to shareblocking restrictions.

Voting on shareholder proposals

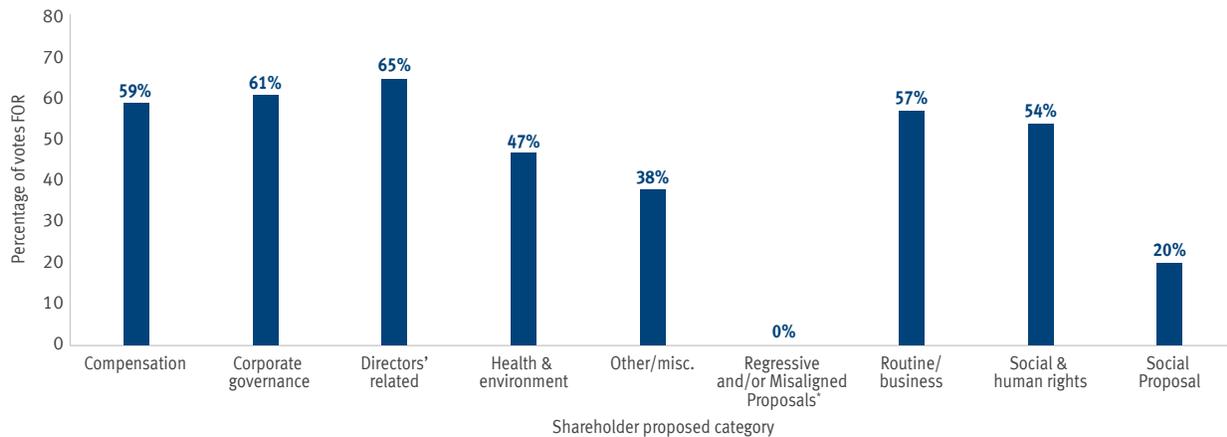
We evaluate shareholder proposals closely and support those that we believe will improve a company’s disclosure or practices without imposing unreasonable constraints on the board and management.

As expected, governance-related shareholder proposals continued to be the most common in 2016.

Shareholder proposals by category



Votes “FOR” by shareholder proposal category



* Regressive and/or Misaligned Proposals are shareholder proposals that seek to oppose the advancement of Environmental or Social disclosure and/or practices at an issuer. As a result, RBC GAM generally does not support these proposals.

Updating our guidelines

Although many routine proxy voting matters arise year-over-year, new trends and practices emerge that require consideration. Accordingly, RBC GAM monitors the corporate governance and responsible investment landscape on an ongoing basis so that we are best positioned to update our custom guidelines for the upcoming year.

Our 2016 Semi-Annual Report contains details of the updates to our guidelines in 2016. The following paragraphs summarize those updates and provide some additional context in notable areas.

Say-on-pay

An increasing number of companies now provide shareholders with the opportunity to provide an advisory vote on their executive compensation practices. We have built upon our existing guidelines to provide additional detail regarding how we evaluate executive compensation.

Board diversity

There is growing evidence to suggest that a more diverse board will be a more effective board. We have taken a progressive stance on this issue and created a formal guideline regarding when we will vote against directors due to a lack of diversity.

Overboarding

Serving as a company director or executive requires a significant time commitment. Individuals who sit on too many boards or have significant executive responsibilities may not be able to commit sufficient time and effort to discharge their responsibilities. Accordingly, we have updated our guidelines on overboarded directors to reduce the number of boards current CEOs can sit on to a total of two boards (their own plus one other) and non-CEOs to a total of five boards. To provide companies with an adequate time frame to adjust to these changes, we have applied a two-year grace period that will end in 2018.

Water risk disclosure

Water supply is becoming a material risk for many companies as the competition for limited water resources grows. Accordingly, it is important that shareholders understand how companies are managing their water-related risks. Our updated guidelines support better reporting of those risks and how the company is managing them.

Exclusive forum provisions

During the 2015 proxy season, we noticed an increase in the number of management proposals seeking approval to establish an “exclusive forum” which provides that any legal actions brought against the company must be brought within the stipulated jurisdiction. While there may be valid reasons for adopting an exclusive forum provision, there is also the potential that these provisions could be abused by a company and negatively impact the rights of shareholders.

In 2016, we updated our guidelines to state that we will assess all exclusive forum provisions on a case-by-case basis, but will generally not support proposals unless the company can demonstrate a clear need for such a provision and how it is in the interests of all shareholders.

Proxy access

In the United States, the 2015 proxy season was dominated by shareholder proposals relating to proxy access. Although our guidelines already contained provisions relating to proxy access, we found that some companies were proposing or implementing proxy access provisions which had the potential to unreasonably limit shareholders’ ability to nominate directors through proxy access. In 2016, we built upon our existing guidelines in this area in order to make it clear that we will vote against proxy access proposals that unduly limit the rights of shareholders to nominate directors through proxy access. We expect proxy access proposals to remain prominent throughout the U.S. 2017 proxy voting season.

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