

2016 SEMI-ANNUAL REPORT
June 2016

CORPORATE GOVERNANCE & RESPONSIBLE INVESTMENT



Global Asset
Management

RBC Global Asset
Management's (RBC GAM)
Corporate Governance and
Responsible Investment (CGRI)
group is pleased to present
our Semi-Annual CGRI Report
that highlights our responsible
investment activities for the
first half of 2016.

Proxy voting

Proxy voting is an important part of our portfolio management process as it provides us with a method of conveying our views on the governance of our investee companies. Most companies in developed markets hold their annual meetings during the spring and as a result, this is when the bulk of proxy voting activity takes place. RBC GAM has developed a comprehensive set of custom Proxy Voting Guidelines that detail how we vote on the most common proposals put forward at shareholder meetings.

Updates to the RBC GAM Proxy Voting Guidelines

Corporate governance best practices are constantly evolving and our Proxy Voting Guidelines are reviewed and updated annually. Over recent years we have seen shareholder expectations regarding shareholder rights, disclosure, and compensation change considerably. We update our guidelines annually and the more significant updates that were made in January 2016 include:

- **Say-on-pay:** Most companies now provide an opportunity for shareholders to provide feedback to a board on a company's executive compensation practices through a non-binding vote, which is referred to as "say-on-pay." Our Proxy Voting Guidelines set out the main principles we will apply when considering say-on-pay proposals and outline how we will assess executive compensation.
- **Board diversity:** There is growing evidence to suggest that a more diverse board will be a more effective board. We updated our board diversity guideline to include guidance on when we will vote against directors due to a lack of diversity. In particular, if a board has no female directors and has not adopted a policy on board diversity we will vote against directors who sit on the nominating committee of the board.
- **Water risk disclosure:** Water supply is becoming a material risk for many companies as the competition for limited water resources grows. For example, companies may now be competing with agriculture, local communities, and protected areas for water resources. It is important that shareholders understand how companies are managing their water related risks and our updated Guidelines support better reporting of these risks.
- **Overboarding:** "Overboarded" is the term used for directors who sit on an excessive number of boards to the point where they may not be able to commit sufficient time and effort to effectively discharge their responsibilities as directors.

This year, we changed our Guidelines to reduce the maximum number of boards that a current CEO can sit on from three to two (their own board and one other). However, in order to allow for appropriate transition, we are phasing in this new guideline over two years.

The updated guidelines are available on the CGRI webpage of our website at www.rbcgam.com.

Proxy voting record

We take an active approach to all of our proxy voting. Our proxy voting team reviews all of the ballots for all of our funds and votes our shares in our clients' best interests. Below is a summary of our voting statistics for the first half of the year.

Proxy voting statistics¹ (January 1 – June 30, 2016)

Proxy voting snapshot

	Canada	U.S.	Overseas	Total
Ballot items voted	3,533	11,031	12,995	27,559
Votes WITH management	3,024	9,769	11,844	24,637
Votes AGAINST management	509	1,262	1,151	2,922
% of votes AGAINST management	14%	11%	9%	11%

Summary of ESG votes

Proposal type	Canada		U.S.		Overseas		Total	
	With Mgt	Against Mgt						
Board independence	87%	13%	93%	7%	92%	8%	92%	8%
Shareholder rights	0%	100%	20%	80%	100%	0%	22%	78%
Executive compensation	85%	15%	76%	24%	73%	27%	76%	24%
Environmental & social	100%	0%	21%	79%	75%	25%	25%	75%
Total	86%	14%	89%	11%	91%	9%	89%	11%

¹ The proxy voting statistics include voting for all of RBC GAM with the exception of BlueBay Asset Management LLP and externally managed sub-advised funds.

Our historical proxy voting records are available on our CGRI webpage.

Proxy season observations

Every proxy season certain issues and trends emerge that define what was important to shareholders in that particular year. This proxy season, noteworthy trends have included increased company-initiated engagements, shareholder push back on pay and concerns about climate change. We also continue to see a growing willingness by shareholders to vote against proposals by management and support proposals by other shareholders. We have summarised below some of the trends we have seen in proxy voting during the first half of this year.

Companies actively engaging with their shareholders

During this proxy season, we noticed that more companies actively reached out to shareholders when there was concern that there may be a significant vote against management on any issue. Companies appeared to be closely monitoring the proxy research, recommendations on voting and the status of votes as they were cast. We had significantly more engagements with the boards and management of our investee companies during this proxy season than in previous years, with most of these engagements being initiated by the companies themselves. In general, we view this as a positive development as it allows shareholders to better understand the companies' perspectives and ensure our votes are being cast in accordance with our clients' best interests. We are encouraged by companies' growing willingness to engage in an open dialogue and are optimistic that it will lead to improved governance practices going forward. While we were pleased with the increase in engagements during proxy season, we continue to encourage companies to engage on potentially contentious issues outside of proxy season in order to ensure that there is sufficient time for a meaningful dialogue.

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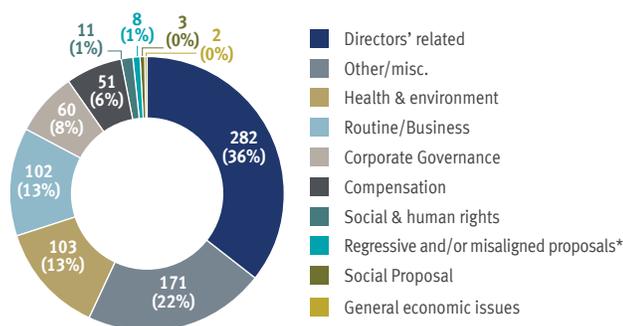
Shareholders push back on pay

The structure and quantum of executive compensation has been an ongoing corporate governance issue for many years. This year, we saw a number of majority and substantial minority votes against say-on-pay proposals. Since the vote is non-binding, there is no direct consequence resulting from an "against" vote but it sends a strong and public message. In Canada, a high profile example was Canadian Pacific Rail. A number of shareholders were unhappy with a very generous severance paid to the former CFO of the company in addition to a poor link between performance and executive pay. Ultimately this resulted in 50.1% of shares being voted "against" say-on-pay. We also saw a substantial "against" vote at U.K.-based BP plc., where more than 59% of shareholders rejected the remuneration report due to concerns about the poor link between executive pay and performance.

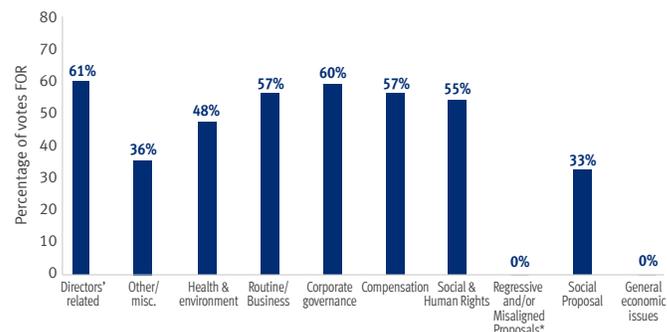
Concerns about climate change

This proxy season, we saw a number of shareholder proposals related to climate change – particularly for companies in the energy industry. Management at a number of fossil fuel producers such as BP, Royal Dutch Shell, Statoil, Rio Tinto, Anglo-American, Glencore and Suncor took the slightly unusual step of supporting shareholder proposals for improved climate risk reporting. Proposals were also filed by shareholders of Exxon and Chevron, asking for enhanced disclosure of climate-related risks and for the companies to adopt policies to manage these risks. Although these proposals did not receive majority support, approximately 40% of shareholders voted in favour of them. There appears to be growing shareholder interest in encouraging energy companies to disclose their risks related to climate change and how they are managing those risks.

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.

RBC GAM's first shareholder proposal

A shareholder proposal is a resolution put forward by a shareholder or a group of shareholders for consideration at a company's annual meeting. Although they are not binding on the company, the expectation is that a company will implement a proposal or take some kind of significant action to address the issue when a majority of its shareholders support a shareholder proposal. As such, shareholder proposals can be very effective catalysts for change, especially when other methods of engagement prove ineffective.

After extensive engagement over several years and in collaboration with the British Columbia Investment Management Corporation (bcIMC), RBC GAM filed two 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.

After ongoing engagement with the company, it agreed to implement the first proposal and nominated an experienced geological and mining engineer as an independent director of the board at the 2016 annual meeting, where he was subsequently elected. The company has also agreed to nominate an additional independent director with operational mining expertise at 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 their second proposal in exchange for the company's commitment to provide more detailed disclosure of its corporate governance practices and changes to the structure of its executive compensation plan.

Engagements

"Engagement" refers to the direct dialogue between a shareholder and the board or management of a company in which it is invested. RBC GAM actively engages with its investee companies on numerous ESG issues. Below is a snapshot of our engagement activity during the first half of 2016.

Compensation

We have been engaging with a number of companies on compensation issues. The most common concerns we have relate to poor links between pay and performance, overall excessive compensation, poorly designed equity compensation plans and inappropriate peer group comparisons. Over the last six months, we have held detailed engagements on executive compensation with seven large Canadian companies, one European company and one South African company.

Overboarding

As reflected in the recent amendment to our Proxy Voting Guidelines (described above), we have become concerned with the overboarding of some directors, particularly those directors who are also current CEOs of listed companies. As a result, we have amended our guidelines to indicate that current CEOs should only sit on two public company boards (their own plus one other). To minimize any disruption as a result of this change, we will not implement this change for two years. As a courtesy, we have sent letters to the chairs of boards that may be impacted in the future by this change to our Proxy Voting Guidelines.

The Western Sahara

A shareholder proposal was filed with Potash Corp. of Saskatchewan Inc. (Potash) this year that prompted our direct engagement with the company. The proposal asked for a third-party assessment of the company's human rights responsibilities regarding the sourcing of phosphate rock from the Western Sahara. Potash's involvement in the region is indirect, in that it buys phosphate rock from a company in the Western Sahara that is owned by the Moroccan Government (OCP SA) in order to produce food-grade phosphoric acid. The history of the region is complex, but the Moroccan government currently directly administers the Western Sahara and, as a result, the region is considered occupied territory under international law. The Moroccan government has been criticized for its human rights record in the region, particularly its treatment of the local Sahrawi people.

In previous engagements with the company on this issue, we determined that Potash has been doing a good job of managing and disclosing the risks in sourcing materials from the region. They have undertaken site visits and engaged with NGOs and other monitoring groups to gain an understanding of the human rights situation. Potash has also adopted adequate policies and procedures relating to human rights in the region, and provides good disclosure to shareholders on the associated risks and how they manage those risks. As a result, in 2015 we voted against a similar shareholder proposal for a third-party assessment of the company's human rights responsibilities, as we believed that such a report would not provide additional value to shareholders.

However, due to recent changes in the Western Sahara, in particular the Moroccan government expulsion of the human rights organisations that were monitoring the situation in the region, many human rights groups believe there is now an increased risk of human rights violations. We concluded that the company is facing increased risks by sourcing phosphate from the region and, as a result, the third-party human rights assessment report requested by the shareholder proposal was warranted.

Collaborative engagements

We recognize that engagement can often be more effective when done collaboratively, with other investors. We are an active participant in the collective engagements organized by the Canadian Coalition for Good Governance (CCGG), which is the preeminent corporate governance organization in Canada. CCGG, with participation from representatives of RBC GAM and other members, held engagements with the boards of 14 Canadian companies throughout the first six months of the year to discuss governance issues.

Other ESG initiatives

- In March 2016 RBC GAM prepared and filed a voluntary PRI Transparency Report. Although we are not required to file our first report until March 2017, we saw this as an opportunity to build our internal ESG reporting capacity and to identify any reporting gaps before we are required to report in 2017. The PRI assesses signatories' approaches to its Principles of Responsible Investment based on its assessment methodology. In our Summary Assessment Report, the PRI gave our overall strategy a score of A+, with a score of A in every other category, with the exception of one where we were given a score of B. Our Summary Assessment Report is available on our website.
- On May 4, 2016 RBC GAM joined a number of global fixed income investors by becoming a signatory to the Principles of Responsible Investment (PRI) Statement on ESG in Credit Ratings. This new PRI initiative aims to increase the systematic and transparent integration of ESG factors into credit ratings.
- In May 2016, RBC GAM joined the PRI Cyber Security Advisory Committee which will develop a collaborative engagement strategy focused on companies' approach to cyber security and increased transparency regarding companies' risk mitigation, budgeting, training and recovery action plans.

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