



CORPORATE GOVERNANCE & RESPONSIBLE INVESTMENT



Global Asset
Management

Contents

Message from Daniel E. Chornous, CIO, RBC Global Asset Management	2
2015 Highlights	3
▪ RBC GAM Approach to Responsible Investment	3
▪ Principles of Responsible Investment (PRI)	3
▪ Integration of ESG research into the investment process	3
▪ Improved environmental and social proxy voting guidelines	3
▪ Corporate Governance & Responsible Investment website	3
Engagement and collaborative initiatives	4
▪ Direct engagement	4
▪ Collaborative engagement	4
▪ Collaborative initiatives.....	4
Proxy voting	6
▪ How we voted	6
▪ Voting on shareholder proposals.....	7
▪ Updating our proxy voting guidelines	7
▪ Looking forward	8



MESSAGE FROM DANIEL E. CHORNOUS

CIO, RBC Global Asset Management

We are pleased to present our first Corporate Governance & Responsible Investment (CGRI) annual report. This report summarizes our responsible investment activities over the past year and going forward, it will continue to expand as our approach in this area grows and evolves.

RBC Global Asset Management (RBC GAM) believes that being an active, engaged and responsible investor will help to enhance the long-term, sustainable performance of the investment portfolios we manage. As an investment manager whose primary focus is maximizing returns for our clients, we have a fiduciary duty to explore all factors that could potentially impact the performance of the companies in which we are invested. As a founding member of the Canadian Coalition for Good Governance, RBC GAM has a long history of leadership in corporate governance and we have always considered environmental and social factors relevant to our investments. However, over the past year in particular we have begun to more formally integrate environmental, social and governance factors (ESG) throughout our investment process. As part of this, we have improved our proxy voting process and have continued to work collaboratively with other like-minded investors to broaden our understanding and influence on ESG-related issues.

2015 marked an important milestone for RBC GAM, as we further demonstrated our ongoing commitment to responsible investment by becoming a signatory to the United Nations Principles for Responsible Investment (PRI). The PRI is recognized as the leading global network for investors who are committed to integrating ESG considerations into their investment practices and ownership policies. We look forward to sharing best practices and collaborating with our fellow signatories in the years to come.

In the year ahead, engaging with the companies in which we are invested will be an important focus. We see engagement as an important tool to better understand the perspectives of companies and the challenges they face, and to encourage better policies and practices on ESG issues. While we already have ongoing and extensive dialogues with the companies held in our investment portfolios, we will be reaching out more pro-actively to engage with companies on material ESG issues in order to deliver more long term, sustainable value for our clients.

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

2015 Highlights

RBC GAM¹ has taken significant steps towards fully integrating ESG factors into our investment process. We have put in place the foundation from which we can build an effective ESG integration strategy, highlights of which are set out below.

RBC GAM Approach to Responsible Investment

In July 2015, we published our framework Approach to Responsible Investment (Approach to RI) which is available on the CGRI section of rbcgam.com. The Approach to RI sets out our overall approach to responsible investment, including how we integrate ESG issues throughout our investment process across different asset classes and how we will work as an active and engaged investor.

Principles of Responsible Investment (PRI)

On August 27, 2015 RBC GAM joined a growing list of global asset owners and managers by becoming a signatory to the PRI. The PRI is recognized as the leading global convention and organization for investors who are committed to integrating ESG considerations into their investment practices and ownership policies. This was an important milestone for RBC GAM and reflects a commitment to continually advance our investment processes. Signing the PRI is also consistent with the evolving needs of our clients, as the demand for formal integration of ESG considerations into the investment process continues to grow.

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.

Integration of ESG research into the investment process

The firm's CGRI group, first formed in January of 2014, has added personnel, research capacity, and tools throughout 2015. We have made ESG-focused research from three different research providers available to all of our investment teams, each of which is developing a process to more formally integrate that material into their investment process. While some teams are further along the integration path than others, all are making progress towards this goal and we continue to explore ways to make ESG-related research more relevant and accessible to our investment teams.

Improved environmental and social proxy voting guidelines

We review and update our custom Proxy Voting Guidelines every year. In January 2015, in addition to our regular review and update, we included more detailed guidance on how we would vote on shareholder proposals related to environmental and social issues. Given our overall efforts to integrate ESG into our investment process, this was a natural step in the evolution of our guidelines and reflects our increasing support of shareholder proposals relating to environmental and social issues.

Corporate Governance & Responsible Investment website

We recognize the importance of transparency around our responsible investment activities. The new CGRI webpage on rbcgam.com brings together resources such as our Approach to RI, our custom Proxy Voting Guidelines, our collaborative efforts and our responsible investment commitments.

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 Alternative Asset Management Inc., RBC Global Asset Management (UK) Limited and the asset management division of RBC Investment Management (Asia) Limited.

Engagement and collaborative initiatives

RBC GAM engages with management and directors of investee companies on a selective basis, both directly on our own behalf and collaboratively with other shareholders. Recently, our focus for engagement has been in the area of compensation (particularly equity compensation plans), board independence and shareholder rights.

Over the next year, RBC GAM will be developing a more structured ESG-focused engagement program. We will concentrate on companies in which we have a substantial investment that have material ESG issues that may represent an investment risk. We will also look for additional opportunities to engage collectively through other organizations and with other like-minded investors to maximize the effectiveness and efficiency of our engagement program.

Direct engagement

Direct engagement with companies on ESG issues is an essential part of integrating ESG into our investment process. We see engagement as an effective way to better understand the perspectives and challenges of the companies in which we are invested and to communicate our perspective as a shareholder. Where we identify significant ESG risks that are not being adequately managed by a company, we will raise these issues and encourage the company to provide better disclosure, adopt better risk management practices, and to mitigate risks where appropriate. We will also encourage companies to explore the competitive advantages that might exist if they are able to anticipate and adapt to ESG-related issues including, for example, new laws and regulations, changing consumer preferences, evolving best practices, etc. Over time, we have found that engagement is often the most effective way to achieve change and therefore an important part of our fiduciary responsibility to our clients.

As noted above, although our engagement has historically been focused on corporate governance issues including board independence, shareholder rights, and executive compensation, we expect to engage with companies on a broad range of ESG issues as we fully develop our engagement strategy.

In 2015 our engagement activity included the following:

- We met with a number of Canadian companies in the mining and energy sectors to discuss proposed changes to their executive compensation practices, including the appropriate way to compensate executives for their efforts in a challenging operating environment while still ensuring that the interests of management and shareholders are aligned.
- We have had discussions with a number of companies in the U.S. and Canada across various sectors, including mining, media, consumer discretionary, and insurance, on corporate governance issues relating to the compensation of the board, board independence, expertise of directors and the separation of CEO and board chair.
- We have had discussions with a number of companies in the mining, chemical and biotechnology sectors in which we sought improved disclosure, including improved disclosure of carbon emissions.

Collaborative engagement

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 46 Canadian companies throughout the year to discuss governance issues.

We have also begun to explore opportunities to work with small groups of other like-minded investors on company or issue-specific engagements. In addition, as a new signatory to the PRI, we will explore opportunities to participate in the collective engagements organized by the PRI.

Collaborative initiatives

We recognize that as a large asset manager, we can play a leading role in promoting and advancing good ESG practices and other issues of importance to shareholders. One of the most effective ways to do this is through industry-wide initiatives and collaborative organizations.

For example, last year we participated in an initiative organized by the Investor Network on Climate Risk and Ceres by signing “*A Statement of Investor Expectations for the Green Bond Market*”. This initiative was designed to go beyond the Green Bond Principles to provide additional guidance for issuers of green bonds in the areas of eligibility, disclosure, reporting and verification.

We are also active members in numerous investor organizations and through them, have participated in a variety of initiatives:

▪ **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 Chief Investment Officer, Daniel E. Chornous, is the Chair of CCGG. RBC GAM is also represented on CCGG's Public Policy Committee.

As noted above, we are an active participant in CCGG's collective engagement program. In addition, we also actively participated in a variety of regulatory initiatives designed to protect and further shareholder rights. RBC GAM participated in the formulation of Canadian submissions filed in 2015 by CCGG to the following:

- the Ministry of Government and Consumer Services of Ontario regarding potential amendments to corporate legislation concerning the process for election of directors
- the Canadian Securities Administrators (CSA) regarding proposed amendments to Multilateral Instrument 62-104 regarding take-over bids and issuer bids and related changes to National Policy 62-203
- the Ontario Securities Commission (OSC) regarding its proposed framework for an OSC Whistleblower Program
- the Toronto Stock Exchange and OSC regarding their proposal to modify certain exemptions available to inter-listed issuers

RBC GAM also actively 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

RBC GAM also participated in the development of the following new policy initiatives released by CCGG in 2015:

- Governance of Canadian Real Estate Investment Trusts and Other Public Income Trusts: Model Declaration of Trust Provisions
- Board Gender Diversity
- Universal Proxy Policy

- **Carbon Disclosure Project (CDP):** RBC GAM is a member of the CDP which provides a global framework for the standardized reporting of greenhouse gas emissions. We encourage all of the companies we invest in to report carbon emissions data under the CDP framework.
- **Responsible Investment Association (RIA):** The RIA is the professional organisation for the responsible investment industry in Canada. RBC GAM is a Sustaining Member of the RIA and a member of the RBC GAM CGRI team is a member of the board and became the Chair in 2015. The RIA plays an important role in promoting responsible investment in Canada through convening conferences and forums to discuss ESG issues, undertaking research and market surveys and providing ESG training for investment professionals.
- **International Corporate Governance Network (ICGN):** RBC GAM is an active member of ICGN, which is an investor-led organisation of governance professionals whose mission is to inspire and promote effective standards of corporate governance and to advance efficient markets and economies world-wide.
- **Council of Institutional Investors (CII):** RBC GAM is a member of CII, which is a U.S.-based corporate governance and shareholders' rights advocacy group that represents over \$3 trillion in institutional assets.
- **UN Principles for Responsible Investment (PRI):** The PRI is recognized as the leading global network for investors who are committed to integrating ESG considerations into their investment practices and ownership policies. PRI signatories commit to implement the six Principles of responsible investment which include incorporating ESG into investment analysis and decision-making, being an active owner by engaging with investee companies and voting responsibly, and collaborating with other shareholders. Signatories also agree to report on their activities in annual "Transparency Reports" provided to the PRI.

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. We have adopted custom Proxy Voting Guidelines which outline our expectations for ESG best practices. As noted above, this year we significantly expanded our guidelines in order to broaden our support for environmental and social shareholder proposals. We have dedicated personnel whose primary responsibility is to oversee and manage the proxy voting for all of our funds. Any unusual circumstances or 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 voted

Here is a snapshot of how we voted our shares throughout 2015. Our historical proxy voting records are available on our CGRI webpage.

Summary of overall voting statistics

	Canada	U.S.	Overseas	Total
Ballot items voted*	3,983	11,679	12,594	28,256
Votes WITH management	3,522	10,198	11,382	25,102
Votes AGAINST management	461	1,481	1,212	3,154
% of votes AGAINST management†	12%	13%	10%	11%

*Does not contain meetings where we did not submit a vote (shareblocking markets)

†AGAINST does not include ballot items where management did not make a recommendation

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
Require independent Board Chairman	0	0	N/A	0	55	100%	0	1	100%	0	56	100%
Act by written consent	0	0	N/A	1	29	97%	0	0	N/A	1	29	97%
Disclose political lobbying	0	0	N/A	2	56	97%	0	0	N/A	2	56	97%
Adopt proxy access	0	0	N/A	3	60	95%	0	1	100%	3	61	95%
Exclusive forum	1	1	50%	6	14	70%	0	0	N/A	7	15	68%
Golden parachutes	1	0	0%	23	6	21%	1	1	50%	25	7	22%
Approve remuneration	120	5	4%	891	101	10%	295	65	18%	1,306	171	12%
Elect Director	2,708	275	9%	7,577	594	7%	3,738	422	10%	14,023	1,291	8%
Approve auditors and their remuneration	346	13	4%	1,089	53	5%	504	21	4%	1,939	87	4%

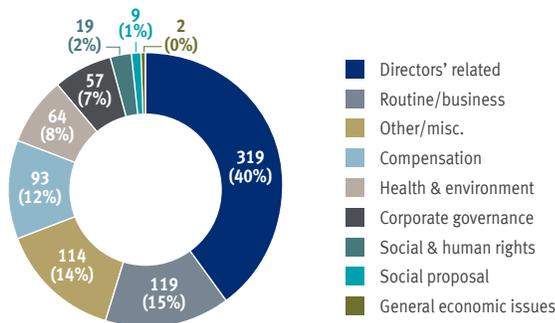
Note that the statistics for the 'Adopt Proxy Access' Item Category do not include six proposals for proxy access put forward by management. In these cases, we voted **WITH** management on three items and **AGAINST** management on three items.

Voting on shareholder proposals

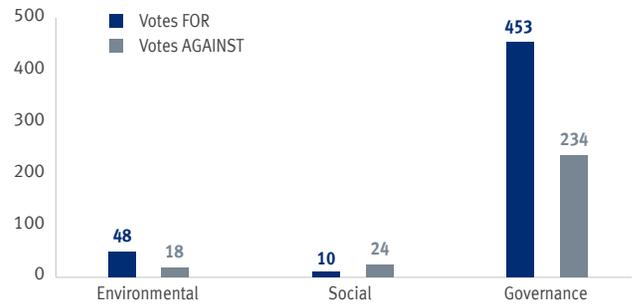
We evaluate shareholder proposals closely and support those that we believe will improve a company’s disclosure or practices without imposing unreasonable constraints on the board and management.

In 2015, governance-related shareholder proposals continued to be the most common.

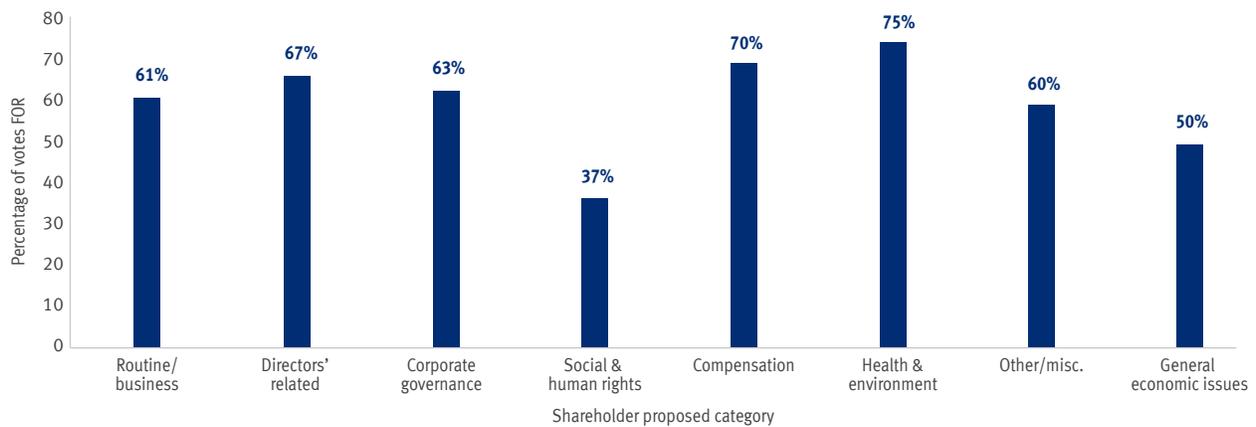
Shareholder proposals by category



Summary of ESG votes



Votes “FOR” by shareholder proposal category



Updating our proxy voting guidelines

Corporate governance practices, including those relating to environmental and social issues, are constantly evolving. Numerous corporate governance scandals of the past two decades have demonstrated that corporate governance practices can have tangible impacts on performance, shareholder value, and the long-term sustainability of company performance. As noted above, our Proxy Voting Guidelines are reviewed and updated annually to reflect evolving corporate governance practices. The most significant changes that were incorporated into the Guidelines in 2015 were the following:

- Environmental and social shareholder proposals:** We significantly expanded our guidelines for shareholder proposals relating to environmental or social issues in order to provide additional detail regarding the types of shareholder proposals that we will generally support.
- Succession planning:** We added a provision to encourage a robust succession planning process that is fully disclosed to shareholders for all levels of management.
- Performance of directors:** When voting for a director, we will consider that director’s performance on other public company boards.

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- **Executive compensation practices:** We require that executives hold a substantial portion of their equity compensation awards, including shares received from options exercised, during their employment with the company and prefer that they be held for a reasonable time after leaving the company. We will also consider supporting proposals to link executive compensation to achieving goals of the company that go beyond traditional financial goals, provided they will improve the company's long-term performance and sustainability.
 - **Proxy access:** We will generally support proposals to give shareholders owning at least 3% of shares (alone or in combination with other shareholders) access to the proxy to advance non-management board candidates not exceeding 25% of the total board.
 - **Enhanced voting rights:** We will consider any proposals to enhance the voting rights of long-term shareholders on a case-by-case basis, in light of the individual circumstances of each company and the legal regime in which it operates.

Looking forward

Throughout 2016, we will continue to focus our efforts on developing ways to meaningfully integrate ESG factors into the investment processes of our investment teams and on being transparent in our efforts through our Transparency Reports provided to the PRI.

We will also be rolling out our ESG-focused engagement program in order to proactively reach out to our investee companies to understand how they are managing ESG issues, as well as how they are identifying and responding to the ESG-related opportunities in their sector. Our goal is not only to communicate our perspective as a shareholder, but also to better understand our investee companies, improve our investment and voting decisions, and drive increased shareholder value over the longer term.

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