

# RBC Emerging Markets Small Cap Equity

## Quarterly Commentary

The Emerging Markets Small Cap Equity Strategy returned -1.8% in Q2 2019 versus a return of -1.0% for its benchmark, the MSCI EM Small Cap Net Index. Small caps continue to lag large cap names in EM and stock selection and top-down positioning delivered mixed results during the quarter. The biggest contributor during Q2 was our holding in AEON Thana, the Thai consumer lender, after the company reported strong results for Q1 and indicated a positive outlook. Holdings in Brazilian company Duratex and Indian consumer company Marico also contributed. Duratex recovered following weak Q1 results due to lower volumes, and Marico benefitted from lower prices for copra, a primary ingredient for its coconut oil products. The biggest detractor was our holding in Cyient, the Indian IT services company, which declined after delayed orders due to regulatory clearance hold-ups at the customer's end. Positions in global luggage brand Samsonite and Delta Electronics Thailand also detracted, the former suffering from the U.S./China trade tensions and the latter negatively impacted by FX moves and a shortage of raw materials.

## Investment Performance



Annualised (%)	QTR	YTD	1YR	3YR	5YR	SI (%)
Strategy (Gross)	-1.80	3.78	-1.43	5.88	3.18	4.64
Benchmark	-0.98	6.70	-5.12	5.46	0.53	2.69

Calendar Year (%)	2018	2017	2016	2015	2014	Cumulative SI
Strategy (Gross)	-9.01	26.52	6.56	-5.77	7.63	31.24
Benchmark	-18.59	33.84	2.28	-6.85	1.01	17.25

Past performance is not indicative of future results and is calculated in USD. Returns may increase or decrease as a result of currency fluctuations.

Source: RBC Global Asset Management, Rimes. Returns include the reinvestment of all income. Net calendar returns can be viewed in the GIPS appendix. Inception of the performance record is 01.07.2013.

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

## Portfolio Characteristics<sup>1</sup>

	Strategy	Benchmark
EBITDA Margin (ex Fin)	17.2%	11.9%
Return on Equity	11.6%	5.4%
Weighted Average Market Cap	\$2bn	\$1bn
Portfolio Turnover	21.2%	-
Active Share	93.8%	-

### Market Cap Distribution

Market Cap	Strategy	Benchmark
< \$1 billion	32.9%	44.8%
\$1 - \$2 billion	36.1%	37.1%
\$2 - \$3 billion	15.9%	14.0%
\$3 - \$4 billion	3.4%	4.0%
> \$4 billion	11.7%	0.2%

## Top Ten Holdings<sup>1</sup>

Company Name	Country	Strategy (%)
Bajaj & Investment	India	3.9
Cyient	India	3.9
Century Pacific Food	Philippines	3.9
AVI	South Africa	3.8
Marico	India	3.3
Inversiones La Construccion	Chile	3.2
Duratex	Brazil	3.1
Sundaram Finance	India	3.0
Chroma ATE	Taiwan	2.9
Aramex PJSC	United Arab	2.9

## Strategy Overview

- \$478 million Assets Under Management
- Inception: July 2013
- Benchmark: MSCI EM Small Cap Net Index
- Vehicles: Segregated Account, SICAV, US '40 Act, Canadian Mutual Fund

## Investment Philosophy & Style

- High cash flow return on investment produces strong 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: typically 50 - 60 holdings
- Majority of returns sought from stock selection
- Maximum in a single security: 5%
- Tracking error of 3 - 8%
- Low portfolio turnover: 30 - 50%

## Investment Team\*\*

**Phil Langham**, Head of RBC Emerging Markets Equity, Senior Portfolio Manager  
Industry Experience: 27 years

**Laurence Bensafi, CFA**, Deputy Head of RBC Emerging Markets Equity  
Industry Experience: 18 years

**Guido Giammattei**, Head of Research, Portfolio Manager  
Industry Experience: 21 years

**Veronique Erb**, Portfolio Manager  
Industry Experience: 19 years

**Zeena Dahdaleh, CFA**, Portfolio Manager  
Industry Experience: 12 years

**Richard Farrell, CFA**, Portfolio Manager  
Industry Experience: 12 years

**Christoffer Enemaerke, CFA**, Portfolio Manager  
Industry Experience: 7 years

**Ashna Yarashi**, Associate Portfolio Manager  
Industry Experience: 7 years

\*\*Industry experience is updated annually.

## About RBC Global Asset Management

- Over \$345 billion Assets Under Management
- Offices in North America, Europe and Asia
- Over 340 investment professionals globally
- Part of Royal Bank of Canada (RBC), one of the highest rated and largest banks in the world\*

\*Ratings: S&P: AA-, Moody's: Aa2. Ranked 5th largest bank in North America and 10th globally based on market capitalisation (Bloomberg).

Past performance is not indicative of future results.

Source: RBC Global Asset Management, Bloomberg, FactSet, Rimes

<sup>1</sup>Supplemental information complements the RBC Emerging Markets Small Cap 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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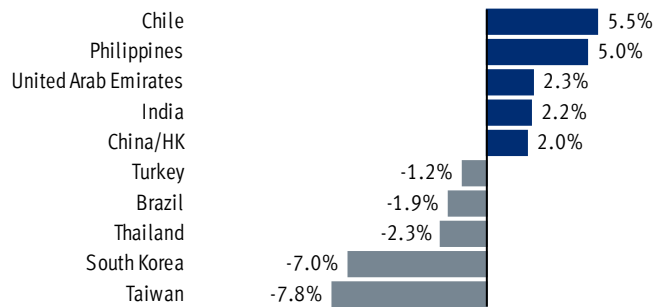
## Top Ten Benchmark Countries <sup>1</sup>

Country	Strategy (%)
India	17.3
China/HK	13.4
Taiwan	11.1
South Korea	8.8
Chile	7.0
South Africa	6.3
Brazil	6.1
Philippines	6.0
Mexico	3.3
United Arab Emirates	2.9

## Sector Allocation <sup>1</sup>

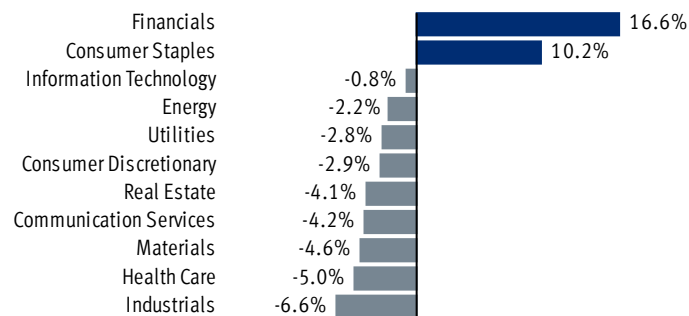
	Strategy (%)
Financials	27.6
Consumer Staples	16.7
Information Technology	13.7
Consumer Discretionary	11.2
Industrials	7.8
Materials	7.3
Real Estate	4.5
Health Care	2.8
Utilities	2.2
Cash	6.2

## Relative Weights for Benchmark Countries <sup>1</sup>



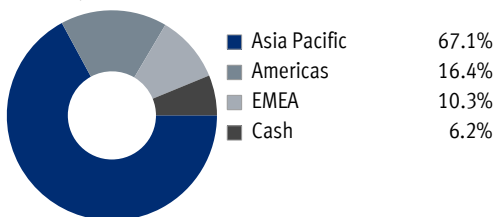
Top and bottom 5 relative weights for benchmark countries. Hong Kong is included as part of the overall China allocation although Hong Kong is not an official MSCI EM index constituent.

## Relative Sector Weights <sup>1</sup>

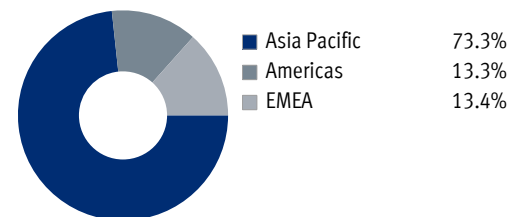


## Regional Breakdown <sup>1</sup>

### Strategy



### Benchmark



## Risk Characteristics

5 Years

	Alpha (%)	Beta	Standard Deviation (%)	R-Squared (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio
Strategy (Gross)	2.5	0.7	10.8	79.4	70.0	74.0	0.2
Benchmark	-	-	14.2	-	-	-	0.0

\*CFROI<sup>®</sup> is an approximation of the economic return, or an estimate of the average real internal rate of return, earned by a firm on the portfolio of projects that constitute its operating assets. HOLT<sup>®</sup> and CFROI<sup>®</sup> are trademarks of Credit Suisse Group AG or its affiliates.

# GIPS® Compliant Presentation, as at June 30, 2019

## RBC GAM Emerging Markets Equity - Small Cap (USD)

Inception Date: July 1, 2013

Benchmark: MSCI Emerging Markets Small-Cap Total Return Net 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)
2013/07 - 2013/12	1.65	1.06	4.79	n/a	n/a	1	-	59.6	296,003.0
2014	7.63	6.40	1.01	n/a	n/a	2	1.15	178.4	302,064.4
2015	-5.77	-6.85	-6.85	n/a	n/a	3	0.87	242.6	276,979.3
2016	6.56	5.35	2.28	11.44	14.33	3	0.24	302.7	289,538.6
2017	26.52	25.07	33.84	10.84	14.36	3	0.39	418.3	331,885.2
2018	-9.01	-10.05	-18.59	11.92	14.01	3	0.19	447.9	305,983.2
YTD 2019	3.78	3.19	6.70	10.53	12.56	3	0.07	478.5	345,911.9

**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\$417 billion (US\$305 billion) in assets under management as at December 31, 2018. 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, 2018. 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 Emerging Markets Equity - Small Cap (USD) composite has been examined for the periods July 1, 2013 - December 31, 2018. The verification and performance examination reports are available upon request.

**Composite Description:** The Emerging Market Equity - Small Cap (USD) Composite includes all portfolios that invest in emerging markets equities of small-cap companies managed by RBC GAM directly.

**Benchmark:** The benchmark is the MSCI Emerging Market Small-Cap (net of taxes) index. The Index is designed to measure the equity market performance of emerging markets with a focus on small market capitalization companies. 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 investor may not invest directly in an index.

**Gross of Fees:** Gross of fees performance is presented gross of all 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 is calculated using the maximum stated annual fee of 1.15% calculated and applied monthly.

**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. Performance shown for the Emerging Markets Equity Small Cap Composite is based on information generated by RBC Global Asset Management's internal performance systems, which may differ from the performance shown in official books and records of certain investment funds which form a part of the composite. Official books and records for certain investment funds which form a part of the composite include the impact of a fair value for market timing that is applied to certain securities as of the close of trading for the fund. For the purposes of calculating the Emerging Markets Equity Small Cap Composite, we prepare a separate performance stream for such funds that eliminates the impact of this fair value adjustment. This second performance stream is used to calculate performance of the composite in an effort to better align the methodology for calculating composite performance with the methodology applied to calculate the benchmark. 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:** The portfolios may use derivatives for hedging purposes, and may also use derivatives such as options, futures, forwards and swaps for non-hedging purposes as a substitute for direct investment, as long as the portfolio's use of derivatives is consistent with its investment objectives. Currency hedging is used primarily as a risk management tool to limit the volatility of portfolio returns and may be used tactically to enhance returns. Currency hedge ratios can range between 0-100%, depending on asset class and mandate. No leverage has been used in any of the portfolios contained in the composite.

**Fee Schedule:** The management fee schedule is as follows: For U.S. clients: 1.15% for the first US\$50mm, 1.05% on the next US \$50mm, and 1.00% for all assets over US\$100m. Advisory fees are described on this page and on Form ADV Part 2A. RBC GAM reserves the right to negotiate all advisory fees.

**Minimum Account Size:** Currently there is no minimum account size in order to be included in this composite.

**Creation Date:** This composite was created on July 1, 2013 and has an inception date of July 1, 2013.

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