



RBC Funds (Lux) – Emerging Markets Small Cap Equity Fund – First Quarter 2019 Commentary

In the first quarter of 2019, the Fund returned 5.4%* underperforming its benchmark, the MSCI Emerging Markets Small Cap Net Index (USD), which returned 7.8%.

Stock selection and top-down positioning on aggregate detracted from relative returns this quarter. At the country level, relative returns were bolstered by strong stock selection in UAE, Chile and Bangladesh, while stock selection in South Africa and Brazil detracted. The Fund's underweight position to Taiwan hurt relative returns. At the sector level, stock selection in Real Estate and Consumer Discretionary benefitted relative returns, however this was offset by stock selection in Financials and Information Technology.

The biggest contributor to relative returns over the first quarter was our holding China Overseas Property who reported strong results with a net profit increase of 31% over 2018. Profitability was largely driven by faster-than-expected growth in the company's property management services. A position in Vitasoy also contributed as shares in the Chinese food and beverage company benefitted from an improved outlook for domestic consumption in China. Two Taiwanese holdings, Giant Manufacturing and Chroma, were also positive for performance in Q1. Giant Manufacturing's share price strengthened on the back of strong revenue growth driven by e-bike sales in Europe, and Chroma, which manufactures automation measuring instruments, saw its share price recover due to a more positive demand outlook driven by indications that China's economic activity has bottomed and that we may be on the verge of a recovery. A position in investment holding company Bajaj Holdings also contributed as two of its key businesses, Bajaj Finance and Bajaj Auto, benefitted from improved sentiment in the non-bank financials segment.

The biggest detractor from relative returns in the quarter was our holding South African consumer company AVI which reported disappointing results due to sales volume weakness and competitor discounting. Given its portfolio of high-quality, leading brands, AVI should prove resilient against the challenging consumer backdrop. Another South African holding, JSE, also detracted. The share price of the South African stock exchange declined alongside broader weakness in local equity markets on the back of a challenging political and macro environment in the country. Positions in Marico and Duratex were also negative for returns. There was a rotation away from the more expensive, high-quality names in India, such as Marico, to those segments of the market that had previously been underperforming, such as non-bank financials. Marico's share price declined despite reporting robust results. Duratex's share price declined in line with the broader market as Brazilian equities have seen some profit-taking this year after their stellar performance following Bolsonaro's election victory last year. Our position in Hatton National Bank suffered due to the announcements of weak earnings over the quarter which negatively impacted the Sri Lankan bank's share price.

* Net of fees and expenses for the O share class

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