The RBC Emerging Markets Equity Strategy (the “Strategy”) is celebrating its 10-year milestone in April 2020. As of 31st March 2020, the Strategy had a total AUM of US$8.0bn, diversified geographically across the U.S., Canada, Europe and Asia.

In the 10 years since its launch, the Strategy has delivered a robust track record of outperformance against the MSCI Emerging Markets Index, with a substantially lower standard deviation compared to both the index and global emerging markets equity peers (Exhibits 1, 2 & 3). The Strategy’s track record demonstrates the strength and consistency of the RBC Emerging Markets Equity team’s investment philosophy and process, with the outperformance driven by stock selection and bolstered by long-term thematic research. In particular, the Strategy’s focus on quality and sustainability has tended to result in outperformance during down markets (Exhibit 4).

As the RBC Emerging Markets Equity team recently celebrated its own 10 year birthday too, we thought it would be an opportune time to revisit what has worked for us over the years – and what has not. We have been holding a team offsite each year with this objective in mind, and we thought it would be interesting to share some of the key things we have learned over the years, as well as feedback from investors.

Diverse and research-focused team
When asked about our strengths, one key differentiator is the team itself. Philippe Langham, the team’s founder and head, has placed great emphasis on building the optimum team in terms of size, structure and skill set. Philippe has tried to build a diverse team in terms of gender, culture, education and experience, while also creating a collaborative environment where everybody feels a strong sense of ownership and responsibility. Our structure, whereby team members contribute to both portfolio management and research duties, with responsibilities clearly defined, has been an important factor in this endeavour.

Another factor that we feel has been an important source of competitive advantage is our strong focus on independent research. At RBC GAM, the investment teams have the benefit of the broad pool of resources and information available through the global RBC platform, while at the same time are given the autonomy to operate independently and make their own investment decisions. Within the Emerging Markets Equity team, we produce a vast amount of research from both a top-down and bottom-up perspective, and everybody in the team gets involved in the production of this research, as well as discussion and debate. Importantly, our research is geared towards long-term factors. When it comes to the top-down,

Exhibit 1: 10 year benchmark outperformance

<table>
<thead>
<tr>
<th>10 year annualized returns</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>RBC Emerging Markets Equity</td>
<td>3.8%</td>
</tr>
<tr>
<td>MSCI EM Net Index</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Exhibit 2: 10 year volatility

<table>
<thead>
<tr>
<th>10 year standard deviation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>RBC Emerging Markets Equity</td>
<td>15.4%</td>
</tr>
<tr>
<td>MSCI EM Net Index</td>
<td>17.7%</td>
</tr>
</tbody>
</table>

Past performance is not indicative of future results and is calculated in USD. Returns may increase or decrease as a result of currency fluctuations. As at 31.03.2020. Source: RBC Global Asset Management. Returns are presented gross of management fees and include the reinvestment of all income. Net calendar returns can be viewed in the GIPS Appendix. Inception of the GIPS performance record is 01.04.2010. Performance is presented as supplemental to the “GIPS Compliant Presentation” which contains additional information regarding calculation of performance data.
Celebrating 10 years of RBC Emerging Markets Equity Strategy

We focus on structural themes, while from a bottom-up perspective the objective is to assess the long-term sustainability of companies. Ultimately, our research has helped us avoid distraction from short-term earnings and market noise.

We currently invest in five themes across the portfolio, all of which have been in place for several years and some since inception. The themes are: Domestic Consumption, Financialisation, Health and Wellness, Infrastructure and Digitalisation (Exhibit 5). While these are multi-decade themes, we do recognise that the drivers and ways to play each theme may evolve over time. We are therefore continuously reviewing and refreshing our thematic research. For example, over the past year we have significantly expanded our work on Infrastructure and financialisation, and most recently have revisited all of our themes in light of the coronavirus pandemic.

From a bottom-up perspective, we place a particularly strong emphasis on company management. When we look at those companies in emerging markets that have been successful over a number of years, one thing that they have in common is that they have strong management teams that are consistently able to distinguish themselves from the competition. We look for driven, entrepreneurial and trustworthy management with a strong long-term track record.

We expanded our work on Infrastructure and financialisation significantly.

Exhibit 3: 10 year strategy peer analysis – performance and risk

<table>
<thead>
<tr>
<th>Over ten years</th>
<th>Returns</th>
<th>Standard deviation</th>
<th>Sharpe ratio (^1)</th>
<th>Tracking error (^2)</th>
<th>Information ratio (^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RBC Emerging Markets Equity</td>
<td>3.7%</td>
<td>15.49</td>
<td>0.20</td>
<td>4.50</td>
<td>0.68</td>
</tr>
<tr>
<td>MSCI EM - Net Dividends</td>
<td>0.68</td>
<td>17.75</td>
<td>0.91</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Past performance is not indicative of future results and is calculated in USD. Returns are presented gross of management fees. Returns may increase or decrease as a result of currency fluctuations. Last 10 years through to 31.03.2020. Created on 20.04.2020 from a universe of 300. Further eVestment information can be found in the disclaimer. \(^1\)MSCI EM Net of Dividends, \(^2\)FTSE 3-Month T-Bill.

Exhibit 4: Relative performance in up and down markets

Past performance is not indicative of future results and is calculated in USD. Returns may increase or decrease as a result of currency fluctuations. As at 31.03.2020. Source: RBC Global Asset Management. Since strategy inception, quarterly excess return in up and down markets is the average (arithmetic mean) of excess returns observed during quarters when the return on the benchmark was positive (up market) or negative (down market). Returns are presented gross of management fees. Net calendar returns can be viewed in the GIPS Appendix. Inception of the GIPS performance record is 01.04.2010. Performance is presented as supplemental to the “GIPS Compliant Presentation” which contains additional information regarding calculation of performance data.

\(^1\)Domestic consumption: Domestic Consumption has been an important theme in Emerging Markets for the past decade. Although it has already come a long way, this theme still has significant growth potential. The combination of factors including rising incomes, increasing urbanisation, an under-levered consumer, increased digital services and improving education are all factors supporting the case for EM consumption over the next decade.

\(^2\)Financialisation: We define financialisation as the increasing size and importance of the financial sector within an economy. We believe continuing demand for credit and financial services supported by factors such as rising disposable income, an expanding middle class and increasing access to financial products, should continue to support financialisation in Emerging Markets.
Celebrating 10 years of RBC Emerging Markets Equity Strategy

In recent times, ESG has been a critical component of the team’s investment philosophy and process since the very beginning. In addition we have been producing an annual ESG report for several years. ESG is fully integrated in our investment process through a proprietary investment checklist which we complete for every company in which we invest. ESG is also fully integrated in the team structure, with everybody responsible for ESG-related analysis. We feel this approach is crucial in order to accurately evaluate companies, fully integrate ESG factors and meaningfully engage with companies.

Ultimately we believe that ESG is about sustainability. Those companies where sustainability is truly engrained will have the advantage of being able to offer superior long-term value creation. Methods of purported ESG integration that are limited by too much focus on benchmarks or short-term results, or by a lack of rigour or understanding, may produce disappointing results.

Learning from mistakes and making improvements

Clearly mistakes are inevitable, but learning from our mistakes has been a defining factor in the team ‘DNA’. As we mentioned above, each year we hold an annual team offsite where we formally review areas that have been successful for us and areas where we can improve; the objective is to learn from our mistakes.

One area that we have analysed for several years has been the impact of our trading decisions. What we have found is that we tend to be better buyers than sellers, and it has been selling on valuation that has been the main culprit. We also found that we have an element of status quo bias, hanging on to some stocks for too long.

As a result we have implemented several measures in order to enhance our sell discipline and spend more time on potential candidates for sale. Notably, we have introduced an independent stock review whereby two team members are randomly assigned to take the positive and negative viewpoint on a stock and present their findings to the team. So far we have found this to be helpful in bringing fresh perspectives to the table and mitigating the risk of behavioural biases. We have also found it to be the source of some very lively team debates!

Another offsite topic we have reviewed has been the impact of portfolio concentration on returns. Interestingly, we have consistently found that our highest-weighted, and by definition highest-conviction, stocks have contributed a disproportionate amount of alpha over the years, and that increasing portfolio concentration has the potential to enhance returns. These findings have encouraged us to gradually consolidate our portfolio holdings over time and also, more recently in 2018, to launch a new focused product of 25-35 stocks.

While we have been integrating ESG since the inception of the Strategy, we have tried to make enhancements when necessary, such as ESG engagement and how we can better monitor and measure its impact. As a result of these discussions, we decided to implement a more targeted approach to engagement to supplement our broader engagement activities. We identified several key areas where we feel we have built expertise and can add value: executive remuneration, board and workforce diversity, ESG disclosure, and plastics consumption, and we have been actively engaging with companies on these topics. We also introduced an engagement template to track our interactions with companies and score each engagement case depending on the status and improvement needed. This will gradually enable us to build a database so that we can better measure and demonstrate the impact of our engagement efforts.

These are just some examples of the many lessons and iterative improvements we have made to our investment process over the years, and we look forward to continuing on our path of learning and improvement.
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; PH&N 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$469 billion (US$361 billion) in assets under management as at December 31, 2019. 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 (USD) composite has been examined for the periods April 1, 2010 - December 31, 2018. The verification and performance examination reports are available upon request.

Composite Description: The Emerging Market Equity (USD) Composite includes all portfolios that invest in Emerging Market equities managed by RBC GAM directly. Reported in $USD. Starting June 1, 2017 portfolios in this composite cannot hold more than 90% investment in another RBC Mutual Fund.

Benchmark: The benchmark is the MSCI Emerging Market net index. The Index is designed to measure the equity market performance of emerging markets. 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 0.95% 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 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 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 present 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 (USD) composite has been examined for the periods April 1, 2010 - December 31, 2018. The verification and performance examination reports are available upon request.

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: 0.95% for the first US$500m, 0.85% on the next US $500m, and 0.80% 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. Prior to January 01, 2012 an account must be at least $25,000,000 to be included.

Creation Date: This composite was created on July 30, 2013 and has an inception date of April 1, 2010. GIPS® is a registered trademark owned by CFA Institute. ®/™ Trademark(s) of Royal Bank of Canada. Used under license. © RBC Global Asset Management Inc., 2020.
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Philippe is Head of the Emerging Markets Equity team in London and lead manager for the Emerging Markets Equity and Emerging Markets Small Cap Equity strategies. He has worked in the investment industry since 1992. Before joining the RBC Global Asset Management in 2009 to establish the Emerging Markets Equity team, Philippe was the Head of Global Emerging Markets at Société Générale Asset Management in London. Previous experience includes roles at the Kuwait Investment Office in London where Philippe managed the Global Emerging Markets, Asian, Latin American and U.S. portfolios and Credit Suisse in Zurich where he was Director and Head of Asia and Emerging Markets.

Philippe holds a BSc in Economics from the University of Manchester, and is a Chartered Accountant.