



# Mid Cap Value Equity

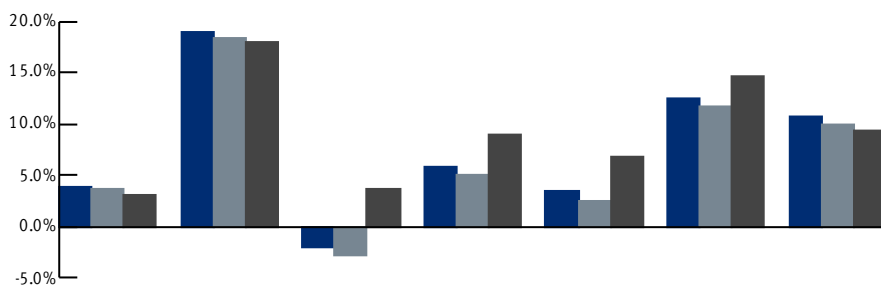
## Quarterly Commentary

Building on exceptionally strong first quarter results, equity markets continued their bull run in the second quarter. Propelled primarily by expectations that the Federal Reserve (Fed) may cut interest rates at one of their upcoming meetings, the broad market as represented by the S&P 500 and Russell 3000 indexes notched solid gains for the quarter. The bulk of the gains occurred early in the quarter as first quarter earnings came in above significantly-dampened expectations. Despite these strong results, challenges remain, including ongoing concerns about the sustainability of global economic growth, mixed US economic data, and significant geopolitical uncertainty.

The Russell Midcap Value Index had a strong quarter as 8 of the 11 economic sectors registered positive returns. The best performing sectors for the time period were industrials (+8.3%), communication services (+7.8%), and financials (-7.5%), while energy (-8.2%) was the worst performing sector. The RBC Mid Cap Value portfolio is modestly overweight industrials, slightly underweight communication services and financials, and slightly overweight energy.

Favorable stock selection within the information technology, industrials and consumer discretionary sectors contributed to the strategy's outperformance on a gross of fee basis and offset adverse stock selection within the utilities and materials sectors. In terms of sector allocation decisions, the portfolio's modest overweight to the relatively strong performing industrials sector contributed positively.

## Investment Performance



|                   | QTR (%) | YTD (%) | 1YR (%) | 3YR (%) | 5YR (%) | 10YR (%) | SI (%) |
|-------------------|---------|---------|---------|---------|---------|----------|--------|
| Composite (Gross) | 3.84    | 18.85   | -1.95   | 5.93    | 3.47    | 12.53    | 10.69  |
| Composite (Net)   | 3.65    | 18.40   | -2.73   | 5.06    | 2.61    | 11.74    | 9.91   |
| Benchmark         | 3.19    | 18.02   | 3.68    | 8.95    | 6.72    | 14.56    | 9.34   |

Past performance is not indicative of future results.

Source: RBC Global Asset Management, FactSet

Inception of the performance record is 1.1.01.

Returns are presented in gross and net of fees and include the reinvestment of all income. All returns for periods greater than one year are shown on an annualized basis. Performance and composite information presented is supplemental to the "GIPS® Compliant Presentation" which contains additional information regarding calculation of performance data.

## Strategy Overview

- \$767 Million Assets Under Management
- Inception: January 2001
- Benchmark: Russell Midcap Value Index
- Vehicles: Separate Account, Canadian Mutual Fund

## Investment Philosophy & Style

- Belief that strong absolute risk-adjusted returns can be generated over time by investing in neglected companies with:
  - Sound long-term business fundamentals
  - Near-term profitability improvement
  - Low valuations at the time of purchase

## Investment Process

- Begin with universe of approximately 1,000 publicly traded companies with market capitalizations within the range of the Russell Midcap Value Index
- Intelligence pool includes more than 1,000 face-to-face company meetings per year
- In-depth and rigorous long-term fundamental research drives security selection

## Portfolio Construction

- Well-diversified portfolios: 55-75 issues
- Maximum in a single security: 5%
- Add positions on positive fundamentals and low valuation
- Fully invested in equities; no market timing
- Exit positions > largest market capitalization of index

## Investment Team

**Robert Henderson**, Lead Portfolio Manager  
Industry Experience: 28 years

**Lance F. James**, Senior Portfolio Manager  
Industry Experience: 39 years

**George Prince**, Portfolio Manager  
Industry Experience: 24 years

**Richard C. Johnson**, Senior Equity Analyst  
Industry Experience: 44 years

**Eric Autio**, Senior Equity Analyst  
Industry Experience: 17 years

**Murphy O'Flaherty**, Senior Equity Analyst  
Industry Experience: 24 years

**Alison Kerivan**, Equity Analyst  
Industry Experience: 24 years

**Patrick Zhou**, Portfolio Engineer  
Industry Experience: 1 years

**Michael Schantz**, Director, Equity Client Service  
Industry Experience: 18 years

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

|                        | Strategy (%) | Benchmark (%) |
|------------------------|--------------|---------------|
| Industrials            | 19.2         | 12.7          |
| Financials             | 16.4         | 17.8          |
| Real Estate            | 14.2         | 14.0          |
| Materials              | 10.0         | 6.0           |
| Utilities              | 9.0          | 11.4          |
| Health Care            | 7.3          | 7.1           |
| Consumer Discretionary | 6.4          | 8.4           |
| Information Technology | 5.8          | 9.0           |
| Energy                 | 5.0          | 5.4           |
| Consumer Staples       | 3.9          | 4.7           |
| Communication Services | 3.0          | 3.2           |

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

| Company Name                        | Strategy (%) |
|-------------------------------------|--------------|
| Arcosa Inc                          | 2.6          |
| VICI Properties Inc                 | 2.6          |
| Post Holdings Inc                   | 2.5          |
| Jazz Pharmaceuticals PLC            | 2.5          |
| Popular Inc                         | 2.5          |
| Laboratory Corp of America Holdings | 2.4          |
| Eagle Materials Inc                 | 2.4          |
| Owens Corning                       | 2.4          |
| Zebra Technologies Corp             | 2.4          |
| Centene Corp                        | 2.4          |

## 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 (Bloomberg, 6.30.19). Ranked 5th largest bank in North America and 10th globally based on market capitalization (Bloomberg, 6.30.19).

Past performance is not indicative of future results.

Source: RBC Global Asset Management, FactSet

<sup>1</sup>Supplemental information complements the "GIPS® Compliant Presentation" as provided. The information presented are those of the representative account in the strategy. There is no guarantee that every account will be identical to the information presented here.

This presentation should not be construed as a recommendation to buy or sell any financial instruments. The information contained herein should not be relied upon as the sole investment-making decision.

## Risk Characteristics

10 Years

|                  | Alpha (%) | Beta | Standard Deviation (%) | R-Squared (%) | Upside Capture (%) | Downside Capture (%) | Sharpe Ratio |
|------------------|-----------|------|------------------------|---------------|--------------------|----------------------|--------------|
| Strategy (Gross) | -3.1      | 1.1  | 16.7                   | 90.9          | 104.7              | 107.4                | 0.7          |
| Benchmark        | -         | 1.0  | 14.2                   | 100.0         | 100.0              | 100.0                | 1.0          |

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

|  | Strategy   | Benchmark  |
|--|------------|------------|
| <b>Fundamentals</b>                    |            |            |
| Return on Equity                       | 12.8%      | 10.1%      |
| Sales Growth (5YR)                     | 7.0%       | 4.4%       |
| Forward EPS Growth                     | 4.6%       | 3.5%       |
| Trailing EPS Growth                    | 20.8%      | 11.6%      |
| Trailing EPS Growth (5YR)              | 10.5%      | 8.2%       |
| Long Term Future EPS Growth Rate       | 8.6%       | 8.0%       |
| Long Term Debt to Total Capitalization | 37.7%      | 39.9%      |
| <b>Profitability</b>                   |            |            |
| Return on Assets                       | 5.7%       | 4.2%       |
| <b>Valuation</b>                       |            |            |
| Forward Price to Earnings              | 13.8       | 17.1       |
| Price to Book                          | 2.0        | 2.2        |
| Price to Sales                         | 1.9        | 2.5        |
| Price to Cash Flow                     | 10.6       | 11.1       |
| PEG Ratio (FY1)                        | 1.6%       | 2.1%       |
| <b>Other</b>                           |            |            |
| Weighted Average Market Cap            | \$10,088mm | \$15,866mm |
| Holdings (ex Cash)                     | 66         | 576        |
| Active Share                           | 90.5%      | -          |

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

## RBC GAM U.S. Equity - Mid Cap Value

Inception Date: January 1, 2001

Benchmark: Russell Midcap Value 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) |
|----------|----------------------------|--------------------------|----------------------|---------------------------|---------------------------|----------------------|-------------------------|-----------------------------|------------------------|
| 2009     | 33.38                      | 32.65                    | 34.21                | 21.88                     | 25.01                     | 3                    | 0.04                    | 19.9                        | 228,136.6              |
| 2010     | 26.91                      | 26.17                    | 24.75                | 24.52                     | 27.11                     | 4                    | 0.08                    | 134.4                       | 252,397.6              |
| 2011     | -2.81                      | -3.17                    | -1.38                | 22.07                     | 22.78                     | 6                    | 0.16                    | 222.6                       | 244,857.4              |
| 2012     | 17.28                      | 16.84                    | 18.51                | 20.50                     | 16.76                     | 6                    | 0.03                    | 362.0                       | 279,416.3              |
| 2013     | 33.95                      | 32.81                    | 33.46                | 17.66                     | 13.69                     | 7                    | 0.52                    | 616.7                       | 296,003.0              |
| 2014     | 18.12                      | 17.12                    | 14.75                | 11.83                     | 9.81                      | 6                    | 0.40                    | 578.0                       | 302,064.4              |
| 2015     | -4.36                      | -5.17                    | -4.78                | 11.99                     | 10.71                     | 9                    | 0.27                    | 719.7                       | 276,979.3              |
| 2016     | 15.18                      | 14.21                    | 20.00                | 14.42                     | 11.30                     | 9                    | 0.22                    | 900.0                       | 289,538.6              |
| 2017     | 3.44                       | 2.56                     | 13.34                | 13.40                     | 10.32                     | 7                    | 0.12                    | 973.5                       | 331,885.2              |
| 2018     | -16.69                     | -17.39                   | -12.29               | 14.73                     | 11.96                     | 3                    | 0.20                    | 734.4                       | 305,983.2              |
| YTD 2019 | 18.85                      | 18.40                    | 18.02                | 15.24                     | 13.00                     | 3                    | 0.12                    | 766.7                       | 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 U.S. Equity - Mid Cap Value composite has been examined for the periods January 1, 2002 - December 31, 2018. The verification and performance examination reports are available upon request.

**Composite Description:** The Mid Cap Value Equity Composite contains accounts that invest in a diversified portfolio of mid cap companies that we believe are undervalued by the market.

**Benchmark:** The benchmark for this composite is the Russell Midcap Value Index, which measures the performance of those Russell Mid-Cap companies with lower price-to-book ratios and lower forecasted growth values. 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 returns are presented before management 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 0.85% applied monthly. Prior to January 1, 2013 net of fee performance was calculated using actual fees. Prior to May 8, 2006, net of fee performance reflects the maximum annual fee of 0.85% calculated and applied monthly. Beginning May 8, 2006 and continuing through December 31, 2009, one non-fee paying account was included in the composite. This account represented 19% of composite assets as of year-end in 2006, 22% in 2007 and 2008, and 13% in 2009.

**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. 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:** None of these strategies are currently employed by any accounts in this composite.

**Cash Flow Policy:** As of April 1, 2015 the significant cash flow policy was removed from the composite. Prior to that date, composite policy required the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of at least 10% of portfolio assets. The temporary removal of such an account occurred at the beginning of the month in which the significant cash flow occurred and the account re-entered the composite the first full month of being fully invested.

**Fee Schedule:** 0.75% on first \$25 million; 0.65% on next \$25 million; and 0.60% on assets over \$50 million. Advisory fees are described on this page and in Form ADV Part 2A. RBC GAM reserves the right to negotiate all advisory fees.

**Minimum Account Size:** There is no minimum account size for this composite.

**Creation Date:** This composite was created on May 8, 2006 and has an inception date of January 1, 2001.

**Composite History:** Performance through May 5, 2006 represents the Mid Cap Value Equity track record established by the Portfolio Management Team while affiliated with a prior firm. From May 8, 2006 forward, composite performance represents accounts managed by the same team of investment professionals at RBC GAM using the same philosophy and process.

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