



# Small Cap Value Equity

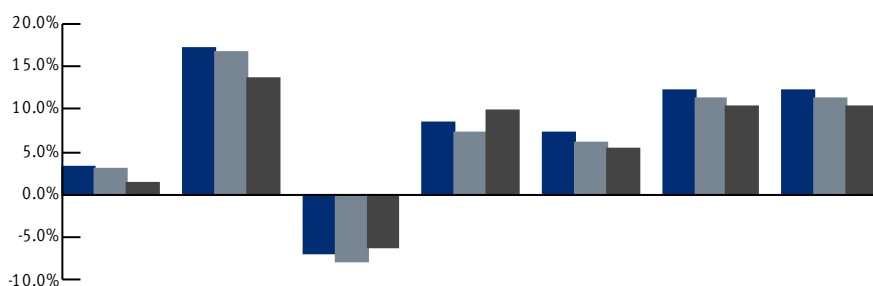
## Quarterly Commentary

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 2000 Value Index had a mixed quarter as 6 out of 11 economic sectors posted negative returns. The worst performing sectors for the time period were energy (-8.7%), consumer staples (-8.2%), and communication services (-7.5%), while the industrials (+7.7%) and utilities (+5.3%) sectors were the best performers. The RBC Small Cap Value portfolio is slightly underweight consumer staples, slightly overweight energy, communication services and utilities, and modestly overweight industrials.

Favorable stock selection was concentrated within the financials, consumer staples, and information technology sectors, offsetting adverse stock selection within the consumer discretionary and communication services 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 (%)	7YR (%)	SI (%)
Composite (Gross)	3.31	17.17	-6.80	8.37	7.11	12.21	12.21
Composite (Net)	3.08	16.65	-7.68	7.31	6.05	11.19	11.19
Benchmark	1.38	13.47	-6.24	9.81	5.39	10.31	10.31

Past performance is not indicative of future results.

Source: RBC Global Asset Management, FactSet

Inception of the performance record is 7.1.12.

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

- \$319 Million Assets Under Management
- Inception: July 2012
- Benchmark: Russell 2000 Value Index
- Vehicles: Separate Account, US Mutual Fund, SICAV, Canadian Mutual Fund, 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 1,500 publicly traded companies with market capitalizations within the range of the Russell 2000 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: 70-100 issues
- Maximum in a single security: 5%
- Majority of returns from stock selection
- Fully invested in equities; no market timing
- Low portfolio turnover

## Investment Team

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

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

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

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

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

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

**Robert Henderson**, Senior Portfolio Manager  
Industry Experience: 28 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 (%)
Financials	26.5	29.4
Industrials	18.8	11.8
Real Estate	10.8	12.3
Consumer Discretionary	9.9	8.5
Utilities	8.7	7.6
Information Technology	7.1	11.8
Materials	4.9	4.2
Energy	4.5	5.1
Health Care	3.6	4.0
Communication Services	3.1	2.9
Consumer Staples	2.2	2.4

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

Company Name	Strategy (%)
Compass Diversified Holdings	3.5
Portland General Electric Co	3.2
Columbus McKinnon Corp/NY	3.1
Spire Inc	2.8
United Community Banks Inc/GA	2.2
Chemical Financial Corp	2.1
Delek US Holdings Inc	2.0
Reinsurance Group of America Inc	1.9
Southwest Gas Holdings Inc	1.9
First Busey Corp	1.8

## 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

Since Inception

	Alpha (%)	Beta	Standard Deviation (%)	R-Squared (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio
Strategy (Gross)	2.2	0.9	14.7	95.0	96.7	92.1	0.8
Benchmark	-	1.0	15.0	100.0	100.0	100.0	0.6

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

	Strategy	Benchmark
<b>Fundamentals</b>		
Return on Equity	10.5%	8.6%
EPS Growth (Est FY1)	4.5%	4.0%
Long Term Debt to Total Capitalization	32.2%	29.6%
<b>Risk</b>		
Beta vs Benchmark (Since Inception)	0.9	1.0
Standard Deviation (Since Inception)	14.7	15.0
<b>Valuation</b>		
Forward Price to Earnings	13.2	14.5
Price to Book	1.8	1.5
Price to Sales	1.8	2.2
<b>Other</b>		
Weighted Average Market Cap	\$2,851mm	\$2,217mm
Holdings (ex Cash)	77	1342
Active Share	93.0%	-

These materials are general and have not been tailored for any specific recipient and should not be relied upon solely for investment making decisions. This material is not intended to cause the recipient to become a fiduciary within the Employee Retirement Income Security Act of 1974 or the Internal Revenue Code of 1986. We are not providing impartial investment advice, or giving advice in a fiduciary capacity. While we have a financial interest in a transaction, we do not receive compensation directly from you or your clients for the provision of investment advice in connection with any such transaction.

RBC Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) and comprises the following affiliates, all of which are indirect wholly owned subsidiaries of RBC: RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management Inc. (Canada), RBC Global Asset Management (UK) Limited (RBC GAM-UK), BlueBay Asset Management LLP, BlueBay Asset Management USA LLC, and RBC Global Asset Management (Asia) Ltd. (RBC GAM Asia) ® Trademark of RBC. Used under license. © 2019 RBC Global Asset Management (U.S.) Inc.

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

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

Inception Date: July 1, 2012

Benchmark: Russell 2000 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)
2012/07 - 2012/12	10.19	10.19	9.07	n/a	n/a	1	-	0.6	279,416.3
2013	33.09	31.76	34.52	n/a	n/a	1	-	0.7	296,003.0
2014	12.36	11.24	4.22	n/a	n/a	1	-	0.8	302,064.4
2015	-1.58	-2.56	-7.47	11.80	13.46	4	-	136.1	276,979.3
2016	31.78	30.47	31.74	14.11	15.50	4	1.22	217.4	289,538.6
2017	12.10	10.98	7.84	13.12	13.97	6	0.31	389.7	331,885.2
2018	-20.18	-20.97	-12.86	15.74	15.76	6	0.45	265.2	305,983.2
YTD 2019	17.17	16.65	13.47	17.71	17.08	6	0.44	296.8	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 - Small Cap Value composite has been examined for the periods July 1, 2012 - December 31, 2018. The verification and performance examination reports are available upon request.

**Composite Description:** The Small Cap Value Composite consists of accounts that invest in small cap companies that we believe are undervalued by the market.

**Benchmark:** The Russell 2000 Value Index measures the performance of the small cap value segment of the U.S. equity universe. It includes those Russell 2000 Index 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 index is unmanaged and 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 returns are calculated using the maximum stated annual fee of .90% applied monthly. Prior to January 1, 2019 the net of fee performance reflects the maximum annual fee of 1.0%. Prior to January 1, 2013 net of fee performance was calculated using actual fees. Beginning July 1, 2012, one non-fee paying account was included in the composite. The account represented 100% of the composite assets as of year-end in 2012, 2013, and 2014.

**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 account 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:** 0.90% on first \$25 million; 0.80% on next \$25 million of assets; and 0.70% on assets exceeding \$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 and has an inception date of July 1, 2012.

GIPS® is a registered trademark owned by CFA Institute.

®/™ Trademark(s) of Royal Bank of Canada. Used under license. © RBC Global Asset Management Inc., 2019