



# Small Cap Growth Equity

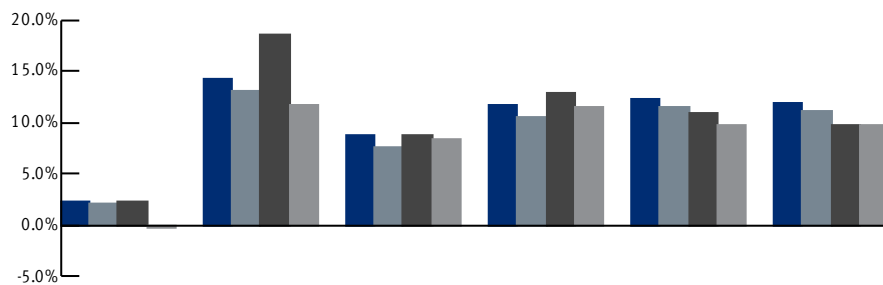
## Quarterly Commentary

The quarter was volatile for equity markets. The Dow and S&P 500 set all-time highs in January, dropped in February before rebounding into mid-March and dropped again on renewed fears of US trade protectionism. Impact of the initial trade actions is expected to be modest, at no more than a 0.2% hit to US GDP. Equity market volatility increased to levels last seen in 2015, and above the 20-year lows of 2017. Relief came in late March, when Congress passed, and the President signed into law, a \$1.3 trillion budget bill to keep the government running through September 2018. Fourth quarter US GDP growth came in strong at 2.9%, and robust job prospects and recently passed tax reform are supporting consumer confidence, at its highest level since 2000. However, investors ended the quarter with more realistic and pragmatic expectations of equity returns compared to the unbridled optimism and complacency of 2017.

Only three of eleven economic sectors in the Russell 2000 Growth Index had positive returns during the quarter – information technology, health care and financials. The other eight sectors had negative returns, with the energy, utilities, and REITs sectors lagging. Non-earnings companies performed well, as they did in 2017, contributing just under 60% of the total index return.

Our largest overweight sectors are industrials and financials, while the largest underweight sectors are consumer discretionary and health care. Performance was helped by a sector overweight and stock selection in financials, a sector underweight in consumer discretionary and by stock selection in health care. Performance was hurt by stock selection in technology, a sector overweight in industrials and by stock selection in consumer staples.

## Investment Performance



	QTR (%)	1YR (%)	3YR (%)	5YR (%)	10YR (%)	SI (%)
■ Strategy (Gross)	2.36	14.17	8.74	11.62	12.37	11.98
■ Strategy (Net)	2.11	13.04	7.66	10.51	11.42	11.21
■ Benchmark	2.30	18.63	8.77	12.90	10.95	9.77
■ Secondary Benchmark	-0.08	11.79	8.39	11.47	9.84	9.84

Past performance is not indicative of future results.

Source: RBC Global Asset Management, FactSet

Inception of the performance record is 10.1.01.

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. The secondary benchmark is used for illustrative purposes as representation of the broader market.

## Strategy Overview

- \$2,218 Million Assets Under Management
- Inception: October 2001
- Benchmarks: Russell 2000 Growth Index, Secondary: Russell 2000 Index
- Vehicles: Separate Account

## Investment Philosophy & Style

- Belief in a strong correlation between a company's earnings growth and its stock price appreciation
- Focus on companies that exhibit consistent growth characteristics, a solid balance sheet and a strong management team
- Belief that companies with steady revenue and earnings growth contribute to low portfolio volatility and long term out performance

## Investment Process

- High conviction, bottom-up fundamental approach built around a long investment horizon
- Uniquely qualified PMs, with CPAs in addition to CFAs, drive deeper analyses of company accounting issues to distinguish high quality earnings from unsustainable earnings
- Low volatility and downside protection through a bottom-up fundamental analysis targeting profitable companies generating more consistent financial results

## Portfolio Construction

- Broad industry and sector exposure across 65-80 holdings with no large sector bets
- Maximum exposure to any one company will be 2.5% at cost and 4.5% at market
- Fully invested in equities; no market timing
- Regular industry and sector attribution reviewed by investment team
- Low portfolio turnover: 15-20% annual average

## Investment Team

**Ken A. Tyszko, CPA, CFA**, Lead Portfolio Manager  
Industry Experience: 34 years

**Ryan H. Smith, CPA, CFA**, Portfolio Manager  
Industry Experience: 14 years

**Rich J. Drage, CPA, CFA**, Portfolio Manager  
Industry Experience: 24 years

**Jeff Nevins, CFA**, Senior Equity Analyst  
Industry Experience: 20 years

**Taham S. Mahimwalla, CFA**, Institutional Portfolio Manager  
Industry Experience: 12 years

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

	Strategy (%)	Benchmark (%)
Information Technology	24.1	25.2
Industrials	23.5	17.8
Health Care	21.9	25.2
Financials	10.0	6.1
Consumer Discretionary	8.8	13.1
Consumer Staples	3.8	2.5
Materials	3.4	4.3
Real Estate	3.0	3.2
Energy	1.4	1.2
Telecommunication	0.0	0.7
Services		
Utilities	0.0	0.6

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

Company Name	Strategy (%)
Pegasystems Inc	2.5
Neogen Corp	2.5
FirstCash Inc	2.4
Cantel Medical Corp	2.3
Woodward Inc	2.1
Haemonetics Corp	2.0
RBC Bearings Inc	2.0
Balchem Corp	1.9
Integer Holdings Corp	1.9
Applied Industrial Technologies Inc	1.8

## About RBC Global Asset Management

- Over \$325 billion Assets Under Management
- Offices in North America, Europe and Asia
- Over 300 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: A1. Ranked 5th largest bank in North America and 10th globally based on market capitalization (Bloomberg, 3.31.18).

Past performance is not indicative of future results.

Source: RBC Global Asset Management, Russell, 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.

GUS/3.31.18/ST010/AUG18/A

## Risk Characteristics

10 Years Through 3.31.18

	Alpha (%)	Beta	Standard Deviation (%)	R-Squared (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio
Strategy (Gross)	2.7	0.8	17.4	93.3	65.6	91.7	0.7
Benchmark	-	1.0	20.1	100.0	100.0	100.0	0.5

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

	Strategy	Benchmark
<b>Fundamentals</b>		
Return on Equity (Trailing 12 Months)	10.0%	11.3%
Long-Term Debt/Total Capitalization (Trailing 12 Months)	22.0%	27.1%
Sales Growth (Trailing 5 Years)	13.6%	17.1%
EPS Growth (Trailing 5 Years)	9.0%	11.8%
Dividend Yield	0.5	0.6
Earnings Stability	23.7%	31.8%
<b>Valuation</b>		
Price/Earnings Ratio (FY1)	25.1	21.2
Price/Earnings Ratio (FY2)	21.8	18.3
Long-Term Future EPS Growth Rate	15.0%	14.1%
Price/Cash Flow Ratio (Trailing 12 Months)	23.4	16.8
Price/Sales Ratio (Trailing 12 Months)	2.8	3.1
<b>Other</b>		
Weighted Average Market Capitalization (Millions)	\$2,548	\$3,026
Median Market Capitalization (Millions)	\$2,012	\$1,061
Number of Holdings (Excluding Cash)	75	1184
Active Share	90.3%	-

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# GIPS® Compliant Presentation, as of March 31, 2018

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

Inception Date: October 1, 2001

Benchmark: Russell 2000 Growth Index

Currency: USD

Annual Returns	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)
Year End									
2008	-33.47	-33.94	-38.54	18.21	21.26	15	0.15	482.2	164,090.1
2009	33.94	33.02	34.47	22.19	24.85	14	0.19	626.5	228,136.6
2010	27.44	26.59	29.09	24.43	27.70	14	0.04	954.6	252,397.6
2011	5.21	4.48	-2.91	20.06	24.31	13	0.12	775.8	244,857.4
2012	21.60	20.82	14.59	16.52	20.72	14	0.18	919.5	279,416.3
2013	43.90	42.47	43.30	14.01	17.27	16	0.26	1,852.6	296,003.0
2014	0.61	-0.39	5.60	12.38	13.82	14	0.03	1,481.8	302,064.4
2015	1.99	0.97	-1.38	13.13	14.95	15	0.22	1,378.7	276,979.3
2016	15.81	14.66	11.32	14.00	16.67	16	0.16	1,841.9	289,538.6
2017	11.65	10.54	22.17	12.64	14.59	19	0.19	2,055.6	331,885.2
YTD 2018	2.36	2.11	2.30	12.21	14.27	18	0.05	1,940.9	326,569.8

**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\$331 billion) in assets under management as at December 31, 2017. 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, 2016. 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 Growth composite has been examined for the periods January 1, 2002 - December 31, 2016. The verification and performance examination reports are available upon request.

**Composite Description:** The Small Cap Growth Equity Composite consists of accounts that invest primarily in small capitalization growth stocks of high quality companies, and may or may not have exposure to the different economic sectors of the indices shown.

**Benchmark:** The Benchmark for this composite is the Russell 2000 Growth Index. The Russell 2000 Index measures the performance of the 2000 smallest companies by market cap in the more broadly based Russell 3000 Index, which in turn represents 98% of the U.S. equity market cap. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price to book ratios, forecasted earnings growth rates, and historical sales per share. 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. The Russell 2000 is also used as a secondary benchmark.

**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 1.0% applied monthly. Prior to January 1, 2013 net of fee performance was calculated using actual fees. Beginning May 1, 2005 one account in the composite has an additional performance-based fee. Prior to October 1, 2004, one non-fee paying account was included in the composite which represented 100% of the assets as of December 31, 2001, 2% of assets as of December 31, 2002, and less than 1% of assets as of December 31, 2003.

**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:** 1.00% on first \$10 million; 0.95% on next \$15 million of assets; 0.85% on next \$25 million of assets; and 0.75% 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:** Beginning January 1, 2011 there is no minimum for this composite. From October 1, 2004 through December 31, 2010, the minimum account size for this composite was \$1 million. Prior to October 1, 2004 there was no minimum account size.

**Creation Date:** This composite was created on and has an inception date of October 1, 2001.

**Composite History:** Performance prior to December 31, 2001 represents the Small Cap Growth Equity track record established by the Portfolio Management Team at a prior firm. Beginning January 1, 2002 composite performance represents accounts managed at RBC GAM using the same philosophy and process.

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