



Small Cap Growth Equity

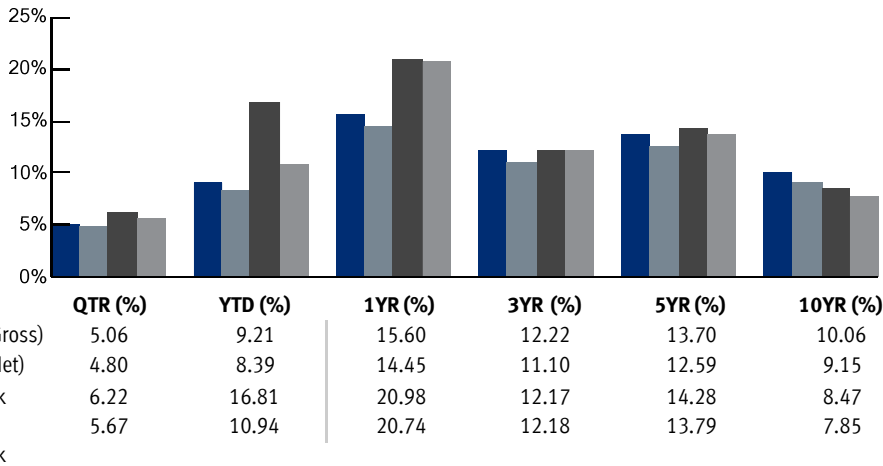
Quarterly Commentary

Amid renewed optimism on the possible passage of favorable tax reform, improving economic growth, and continued strength in corporate earnings, US equity markets posted another strong quarter. The market continued its upward trajectory despite escalating geopolitical tensions between the US and North Korea as well as two devastating hurricanes hitting the major population centers of Texas and Florida. Following the relatively weak first quarter GDP print of +1.4%, second quarter GDP came in at a fairly strong +3.1%, the best reading since the first quarter of 2015. Other economic indicators also improved, providing solid support for a strengthening and accelerating US economy. In addition, both business and consumer confidence continue to improve along with employment growth, and investor sentiment is high as strong equity returns cause even more investor inflows into the equity markets.

During the quarter, all sectors within the Russell 2000 Growth Index were positive. Telecommunications, industrials and health care were the best-performing sectors within the Index. Due to an increase in Treasury yields during the quarter, we noted underperformance in the bond proxy sectors, with REITs being the weakest sector, followed by consumer staples, and utilities. More than half of the index's quarterly return was generated by the industrials and health care sectors, with the largely unprofitable biotechnology industry contributing approximately 90% of the entire return of the health care sector.

Performance was helped by a sector overweight and stock selection in industrials and by stock selection in REITs and energy. Performance was hurt by stock selection in health care, consumer discretionary, and financials.

Investment Performance



Past performance is not indicative of future results.

Source: RBC Global Asset Management, Russell, 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 and have been rounded up. 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 but is not considered a benchmark for the strategy.

Strategy Overview

- \$2,185 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

Kenneth A. Tyszko, CPA, CFA, Lead Portfolio Manager
Investment Experience: 33 years

Ryan H. Smith, CPA, CFA, Portfolio Manager
Investment Experience: 13 years

Richard J. Drage, CPA, CFA, Portfolio Manager
Investment Experience: 23 years

Jeff Nevins, CFA, Senior Equity Analyst
Investment Experience: 19 years

Taham S. Mahimwalla, CFA, Institutional Portfolio Manager
Investment Experience: 11 years

Sector Allocation¹

| | Strategy (%) | Benchmark (%) |
|------------------------|--------------|---------------|
| Industrials | 26.0 | 17.9 |
| Health Care | 23.0 | 24.8 |
| Information Technology | 21.1 | 24.2 |
| Consumer Discretionary | 9.6 | 13.6 |
| Financials | 8.9 | 6.0 |
| Consumer Staples | 3.6 | 2.5 |
| Materials | 3.3 | 4.6 |
| Real Estate | 3.2 | 3.4 |
| Energy | 1.4 | 1.2 |
| Telecommunication | 0.0 | 1.1 |
| Services | | |
| Utilities | 0.0 | 0.7 |

Top Ten Holdings¹

| Company Name | Strategy (%) |
|-------------------------------|--------------|
| PAREXEL International Corp | 2.6 |
| Pegasystems Inc | 2.5 |
| Woodward Inc | 2.4 |
| Neogen Corp | 2.2 |
| Cantel Medical Corp | 2.1 |
| RBC Bearings Inc | 2.0 |
| Healthcare Services Group Inc | 2.0 |
| Balchem Corp | 2.0 |
| FirstCash Inc | 1.9 |
| Medidata Solutions Inc | 1.9 |

About RBC Global Asset Management

- Over \$320 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 (Bloomberg, 9.30.17). Ranked 5th largest bank in North America and 10th globally based on market capitalization (Bloomberg, 9.30.17).

Past performance is not indicative of future results.

Source: RBC Global Asset Management, Russell, FactSet

¹Supplemental 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/9.30.17/ST010/FEB18/A

Risk Characteristics

10 Years Through 9.30.17

| | Alpha (%) | Beta | Standard Deviation (%) | R-Squared (%) | Upside Capture (%) | Downside Capture (%) | Sharpe Ratio |
|------------------|-----------|------|------------------------|---------------|--------------------|----------------------|--------------|
| Strategy (Gross) | 2.5 | 0.8 | 17.7 | 93.7 | 64.7 | 92.7 | 0.5 |
| Benchmark | - | 1.0 | 20.5 | 100.0 | 100.0 | 100.0 | 0.4 |

Portfolio Characteristics¹

| | Strategy | Benchmark |
|--|----------|-----------|
| Profitability | | |
| Return on Equity (Trailing 12 Months) | 8.8% | 6.3% |
| Net Profit Margin | 6.1% | 3.9% |
| Fundamentals | | |
| Long-Term Debt/Total Capitalization (Trailing 12 Months) | 26.3% | 28.1% |
| Sales Growth (Trailing 5 Years) | 13.4% | 15.8% |
| EPS Growth (Trailing 5 Years) | 7.9% | 9.7% |
| Earnings Stability | | |
| | 22.2% | 31.7% |
| Valuation | | |
| Price/Earnings Ratio (FY1) | 26.5 | 23.9 |
| Price/Earnings Ratio (FY2) | 22.8 | 21.3 |
| Long-Term Future EPS Growth Rate | 13.0% | 14.0% |
| Price/Cash Flow Ratio (Trailing 12 Months) | 19.4 | 16.9 |
| Price/Sales Ratio (Trailing 12 Months) | 2.7 | 3.0 |
| Other | | |
| Weighted Average Market Capitalization (Millions) | \$2,654 | \$2,511 |
| Median Market Capitalization (Millions) | \$2,235 | \$1,011 |
| Number of Holdings (Excluding Cash) | 77 | 1168 |
| Active Share | 89.2% | - |

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GIPS® Compliant Presentation, as of September 30, 2017

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 | | | | | | | | | |
| 2007 | 7.33 | 6.67 | 7.05 | 11.06 | 14.23 | 16 | 0.10 | 793.2 | 207,926.9 |
| 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 |
| YTD 2017 | 9.21 | 8.39 | 16.81 | 13.07 | 14.90 | 18 | 0.13 | 2,020.4 | 319,111.8 |

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\$388 billion (US\$289 billion) in assets under management as at December 31, 2016. 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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