



# SMID Cap Growth Equity

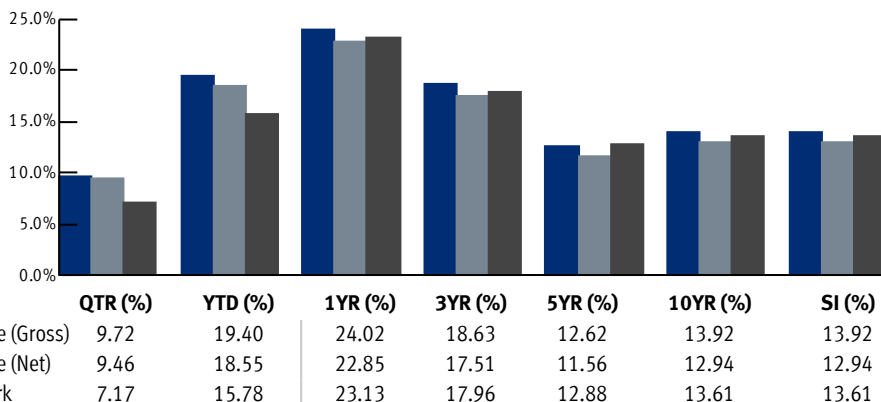
## Quarterly Commentary

Continuing its strong run in 2018, equity markets surged in the third quarter driven by solid corporate profits, robust consumer spending, and a strong second quarter GDP gain of 4.2%, with third quarter GDP appearing to track at a similar rate. Both business and consumer sentiment are high, while a new North American trade agreement promises to bolster trade. Companies in our portfolio are generating strong profits due to lower corporate tax rates and a stronger economy, and management teams are optimistic about future prospects. In September, the Fed raised interest rates 25 basis points, with another quarter-point rate hike likely in December 2018 and two or three more also likely in 2019. The Fed is seeing a small increase in inflation due to rising oil prices, increased wages due to a low unemployment rate, and an increase in certain commodity input prices primarily due to Chinese tariffs.

The top performing sectors in the index were information technology, health care, and industrials. Lagging sectors were energy, materials, and financials. Approximately 75% of the index's quarterly return was generated by the health care and information technology.

Our largest overweights versus the index are information technology, financials and industrials, while the largest underweights are consumer discretionary, communication services and health care. Performance was helped by a sector underweight and stock selection in consumer discretionary, and by stock selection in information technology and industrials. Detractors included a sector overweight and stock selection in financials, and by stock selection in health care and consumer staples.

## Investment Performance



Past performance is not indicative of future results.

Source: RBC Global Asset Management, FactSet

Inception of the performance record is 10.1.08.

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

- \$186 Million Assets Under Management
- Inception: October 2008
- Benchmark: Russell 2500 Growth Index
- Vehicles: Separate Account, US Mutual Fund

## 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 - three team members 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 70-90 holdings with no large sector bets
- Maximum exposure to any one company will be 2.5% at cost and 4.0% 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 PM  
Industry Experience: 34 years

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

**Nidhi Chadda**, Portfolio Manager  
Industry Experience: 17 years

**Andy Topps, CPA, CFA**, Sr. Equity Analyst  
Industry Experience: 16 years

**Taham S. Mahimwalla, CFA, IPM**  
Industry Experience: 12 years

**Alexandra Zhmakina, APM**  
Industry Experience: 4 years

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

	Strategy (%)	Benchmark (%)
Information Technology	28.8	25.9
Health Care	20.2	22.9
Industrials	18.9	16.9
Consumer Discretionary	11.1	15.8
Financials	9.5	6.9
Materials	5.3	4.6
Consumer Staples	3.1	2.0
Real Estate	1.6	2.5
Energy	1.4	1.6
Communication Services	0.0	0.7
Utilities	0.0	0.2

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

Company Name	Strategy (%)
WEX Inc	2.2
Synopsys Inc	2.1
Teledyne Technologies Inc	2.0
Jack Henry & Associates Inc	1.9
Raymond James Financial Inc	1.9
HealthEquity Inc	1.9
Tractor Supply Co	1.8
Bottomline Technologies Inc	1.8
Woodward Inc	1.8
West Pharmaceutical Services Inc	1.8

## About RBC Global Asset Management

- Over \$330 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: Aa2 (Bloomberg, 9.30.18). Ranked 5th largest bank in North America and 10th globally based on market capitalization (Bloomberg, 9.30.18).

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 Through 9.30.18

	Alpha (%)	Beta	Standard Deviation (%)	R-Squared (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio
Strategy (Gross)	2.0	0.8	16.1	94.8	65.1	90.0	0.8
Benchmark	-	1.0	18.5	100.0	100.0	100.0	0.7

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

	Strategy	Benchmark
<b>Fundamentals</b>		
Return on Equity (Trailing 12 Months)	12.4%	13.1%
Long-Term Debt/Total Capitalization (Trailing 12 Months)	27.5%	33.5%
Long-Term Future EPS Growth Rate	14.0%	15.0%
Dividend Yield	0.4%	0.6%
Earnings Stability	19.6%	28.7%
<b>Valuation</b>		
Price/Earnings Ratio (FY1)	27.1	24.3
Price/Earnings Ratio (FY2)	23.3	22.0
Price/Cash Flow Ratio (Trailing 12 Months)	22.8	20.9
Price/Sales Ratio (Trailing 12 Months)	3.9	4.1
<b>Other</b>		
Weighted Average Market Capitalization (Millions)	\$6,282	\$5,823
Median Market Capitalization (Millions)	\$4,725	\$1,356
Number of Holdings (Excluding Cash)	77	1495
Active Share	92.3%	-

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 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., RBC Global Asset Management (UK) Limited ("RBC GAM-UK"), BlueBay Asset Management LLP, BlueBay Asset Management USA LLC and the asset management division of RBC Investment Management (Asia) Limited. ® Trademark of RBC. Used under license. © 2018 RBC Global Asset Management (U.S.) Inc.

# GIPS® Compliant Presentation, as of September 30, 2018

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

Inception Date: October 1, 2008

Benchmark: Russell 2500 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)
2008/10 - 2008/12	-27.29	-27.40	-27.77	n/a	n/a	1	-	9.5	164,090.1
2009	36.31	35.16	41.66	n/a	n/a	2	-	72.8	228,136.6
2010	34.72	33.73	28.86	n/a	n/a	2	0.04	88.6	252,397.6
2011	2.82	2.11	-1.57	18.88	22.94	3	0.27	89.4	244,857.4
2012	18.17	17.33	16.13	16.35	19.82	3	0.37	84.4	279,416.3
2013	36.29	35.00	40.65	13.58	16.48	2	0.22	109.2	296,003.0
2014	3.85	2.86	7.05	11.06	12.54	2	-	92.6	302,064.4
2015	1.33	0.37	-0.19	11.13	13.29	3	0.01	153.2	276,979.3
2016	12.22	11.16	9.73	11.84	14.67	2	0.02	134.5	289,538.6
2017	18.07	16.96	24.46	10.64	13.04	2	0.02	139.5	331,885.2
YTD 2018	19.40	18.55	15.78	10.35	11.97	2	0.02	167.8	332,659.9

**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\$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, 2017. 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 - SMID Cap Growth composite has been examined for the periods October 1, 2008 - December 31, 2017. The verification and performance examination reports are available upon request.

**Composite Description:** The SMID Cap Growth Equity Composite consists of accounts that primarily invest in high-quality small and mid cap growth companies that we believe will outperform the market over the longer-term.

**Benchmark:** The benchmark for this composite is the Russell 2500 Growth Index, which measures the performance of the small to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher price-to-book ratios, forecasted growth values, 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.

**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 0.95% applied monthly. Prior to January 1, 2013 net of fee performance was calculated using actual fees.

**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:** 0.95% on first \$10 million; 0.85% on next \$15 million of assets; 0.75% on next \$25 million of assets; and 0.65% 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 October 1, 2008.

GIPS® is a registered trademark owned by CFA Institute.

®/™ Trademark(s) of Royal Bank of Canada. Used under license. © RBC Global Asset Management Inc., 2018



RBC Global Asset Management (U.S.) Inc  
 Minneapolis | Boston | Chicago  
 800.553.2143 | [us.rbcgam.com](http://us.rbcgam.com)