



Microcap Core Equity Strategy Update

Composite Inception Date is 5/1/2003	QTR	YTD	1 YR	3 YR	5 YR	10 YR
Microcap Core Equity (Gross)	11.86%	28.19%	28.19%	3.03%	14.39%	6.39%
Microcap Core Equity (Net)	11.51%	26.60%	26.60%	1.75%	13.07%	5.30%
Russell Microcap Index	10.05%	20.37%	20.37%	5.77%	15.59%	5.47%

Market Recap

Despite a tepid start to the quarter, equity markets concluded the year in strong fashion. As the major indices set and surpassed new all-time highs, final returns for the year revealed gains considered unlikely in early January when markets got off to the worst start to a year for US equities on record. While the surprise victory of President-elect Donald Trump and a Republican sweep in Congress have received most of the credit for the late year surge, the rapidly accelerating domestic economy played a role as well. Post-election, markets quickly embraced the prospects of increased fiscal stimulus under a Trump administration as expectations of tax cuts, increased infrastructure investment and significant deregulation contributed to record inflows into equities. While optimism for the Trump administration reinvigorated markets, improvement in economic data also contributed to the increasingly strong market returns.

Micro cap stocks, as represented by the Russell Microcap Index, had a strong quarter as 10 of the 11 economic sectors posted positive returns. The financials (+24.9%), energy (+18.8%) and utilities (+16.7%) sectors were the best performing sectors in the index this quarter. The worst performing sectors included healthcare (-6.6%) and information technology (+3.9%). The RBC Microcap Core Equity strategy is significantly underweight healthcare, moderately underweight information technology and real estate, significantly overweight industrials and is in-line with the index's utilities weighting.

Strategy Overview

Favorable stock selection in the industrials (+149 bps) and materials (+74 bps) sectors contributed the most to performance this quarter from a stock selection standpoint, but this was offset by adverse stock selection within the consumer discretionary (-169 bps) and energy (-88 bps) sectors. Sector allocation decisions drove outperformance this quarter. Most importantly, a significant underweight to the healthcare sector and the avoidance of the poorly performing biotech and pharmaceuticals industries, contributed +277 bps to returns.

Strengths

- **Columbus McKinnon Corp. (+1.43%):** *Designs, manufactures, and markets material handling products;* Stock rallied with the rest of the industrials sector following Trump's election and expectations for increased infrastructure investment.
- **Patrick Industries, Inc. (+0.91%):** *Manufactures component products for the RV and manufactured housing industries;* Continued to benefit from an unexpected surge in demand for RVs. Beat earnings estimates and revenues were up 42% in the quarter.
- **ACCO Brands Corp. (+0.75%):** *Office products and school supplies manufacturer;* Company made an accretive acquisition of Esselte Group, a leading European office products company, which will increase their sales presence in Europe.
- **Preferred Bank (+0.69%):** *Southern California-based bank focused on the Chinese-American population;* Beat earnings estimates driven by

a lower than expected loan loss provision and non-interest expense. Strong loan and deposit growth were the highlights of the quarter.

- **Grand Canyon Education, Inc. (+0.68%):** *Postsecondary education services provider;* Company's revenues increased 8.8% y/y, new online enrollment growth accelerated to the mid-teens and management raised guidance.

Weaknesses

- **Universal Electronics, Inc. (-0.68%):** *Universal remote control manufacturer;* A number of cable companies have boxes that are not updated to use smart, voice-controlled remotes. This resulted in several delays in next gen remote orders. Company guided down for Q4.
- **Tyler Technologies, Inc. (-0.38%):** *Offers public sector software solutions for state and local government organizations and school districts;* Traded down in sympathy with other non-cyclical, growth oriented tech companies during the value rally despite continued strong fundamentals.
- **Gulfport Energy Corp. (-0.34%):** *Independent oil and gas E&P company;* Negative sentiment in gas stocks weighed on Gulfport. Company also did a secondary equity offering priced well below its current share price and tapped the debt market to fund a deal to acquire more acreage, which disappointed investors.
- **American Outdoor Brands Corp. (-0.32%):** *Firearm manufacturer;* Stock fell following Trump's election due to an alleviation of concern that 2nd Amendment rights would be challenged with potential regulations under a Clinton administration.
- **BioScrip, Inc. (-0.27%):** *Provides home infusion and home care management solutions;* Revenue fell short in the quarter due to lower-than-expected core therapy sales volumes. In addition, overall reimbursement rates were not commiserate with costs of operations.

Outlook

Looking ahead, potential green shoots provide ample support for continued economic growth and equity market upside. With labor markets functioning at or near full employment, subsequent wage growth coupled with increased consumer confidence set the stage for increased consumer spending. As the Trump administration takes office and transitions from monetary to fiscal policy stimulus measures, corporate America is expected to be the primary beneficiary due to the proposed pro-growth policies that are expected to support further economic acceleration. While these points support bullish optimism, caution is warranted as many questions remain unanswered. Uncertainties surrounding the timing of Trump's policy implementations, further Fed rate hikes, the impact of OPEC's recently announced production cuts, the constant overhang of geopolitical challenges and the potential self-inflicted issues that Trump's stance on global trade have the potential to cause are all reasons for concern. As one can see, while there is a great deal to be excited about, there is also quite a bit to be wary of as we move into 2017 and beyond.

Past performance is not indicative of future results.

Returns 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.

For institutional investor use only. Performance and composite information on this page is supplemental to the "GIPS® Compliant Presentation" which contains additional information regarding calculation of performance data. The securities named in the Strengths and Weaknesses sections are those that contributed and detracted most to the composite's performance during the quarter. To obtain calculation methodology or a list of every holding's contribution to the overall account's performance during the period, request online at <http://us.rbcgam.com/contact-us/form/default.fs>. Views and opinions of RBC GAM-US are subject to change without notice based on market and other developments.

GIPS® Compliant Presentation as of December 31, 2016

Year	Composite Return Gross of Fees	Composite Return Net of Fees	Benchmark Return	# of Portfolios	Composite Dispersion	Composite 3-Year Standard Deviation	Benchmark 3-Year Standard Deviation	Composite Assets	Total Firm Assets
2007	-2.12%	-3.05%	-8.00%	1	N/A ¹	10.38%	13.38%	292.0	207,926.9
2008	-37.39	-37.89	-39.78	1	N/A ¹	18.13	19.98	136.0	164,090.1
2009	24.57	23.48	27.48	1	N/A ¹	24.08	25.61	140.2	228,136.6
2010	24.87	23.67	28.89	3	0.24%	27.29	29.02	209.7	252,397.6
2011	-0.54	-1.37	-9.27	2	0.29	25.94	26.09	143.5	244,857.4
2012	25.04	24.02	19.75	2	2.09	21.57	21.20	158.4	279,416.3
2013	43.24	41.46	45.62	3	0.28	17.83	17.09	255.8	296,003.0
2014	-2.72	-3.93	3.65	3	0.10	13.58	14.31	227.2	302,064.4
2015	-12.29	-13.38	-5.16	3	0.66	14.46	14.83	183.8	276,979.3
2016	28.19	26.60	20.37	3	1.31	16.79	16.84	188.1	289,538.6

¹N/A – Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

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\$383 billion (US\$277 billion) in assets under management as at December 31, 2015. 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, 2015. 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 Microcap Core Equity composite has been examined for the periods May 1, 2003 - December 31, 2015. The verification report(s) is/are available upon request.

Composite Description: The Microcap Core Equity Composite consists of accounts that invest in a diversified portfolio of small and microcap companies, and that may or may not have exposure to the different economic sectors in the index.

Benchmark: The benchmark for this composite is the Russell Microcap Index. The Russell Microcap Index measures the performance of the smallest 1,000 companies in the Russell 2000 Index and the next smallest 1,000 companies in the Russell universe of eligible US securities. 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 1.25% 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 1.25% calculated and applied monthly.

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 US 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: 1.25% on first \$25 million; 1.00% on assets over \$25 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 May 1, 2003.

Composite History: Performance through May 5, 2006 is for a registered fund sub-advised by the Portfolio Management Team while affiliated with a prior firm. The advisor to the fund through April 15, 2004 was Jones and Babson, Inc.; a registered investment advisory company affiliated with RBC GAM beginning May 1, 2003. RBC GAM became the advisor to the fund on April 16, 2004. Either directly, or through its affiliate Jones & Babson, RBC GAM has had a role in sub-advisor selection of this fund since May 1, 2003. On May 8, 2006, one of the decision makers for the Microcap Core strategy joined RBC GAM and continued to manage the strategy using the same philosophy and process.

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