



Mid Cap Value Equity Strategy Update

Composite Inception Date is 1/1/2001	QTR	YTD	1 YR	3 YR	5 YR	10 YR
Mid Cap Value Equity (Gross)	-0.67%	1.10%	8.26%	6.42%	13.01%	8.29%
Mid Cap Value Equity (Net)	-0.88%	0.46%	7.34%	5.52%	12.09%	7.58%
Russell Midcap Value Index	2.14%	7.43%	13.37%	9.19%	14.33%	7.85%

Market Recap

The US economic growth acceleration that began in the middle of last year has largely continued through the third quarter. US second quarter GDP came in at a fairly strong 3.0% – the best reading since 1Q15. In addition, the Purchasing Managers Index (PMI) manufacturing data for August provided further support for a strengthening economy. The positive surge in softer sentiment measures such as consumer confidence has continued to improve with recent employment growth. The same has been true for business sentiment indicators as a more pro-business regulatory environment has further boosted confidence. However, the destruction caused by Hurricanes Harvey and Irma will likely diminish third quarter GDP since economic output and demand are both impeded, yet historically, these moves are usually quickly reversed.

Strategy Overview

The RBC Mid Cap Value Equity strategy is modestly overweight to the materials, telecom services, and health care sectors, moderately overweight energy, and moderately underweight within industrials.

Adverse stock selection weighed on returns in the quarter, primarily within the financials (-136 bps), consumer discretionary (-110 bps), and industrials (-58 bps) sectors, which outweighed favorable stock selection in the information technology sector (+111 bps). Overall sector allocation decisions were modestly positive with the strategy's underweights to the poor performing real estate and consumer staples sectors boosting returns.

Strengths

- **Lam Research Corp. (0.60%):** *Semiconductor processing equipment manufacturer*; Posted another beat and raise, and raised 2017 demand outlook and offered strong guidance. Announced acquisition of Coventor, a company focused on semiconductor design, modeling, and simulation software.
- **Andeavor (0.41%):** *Oil refiner*; Huge earnings beat driven by exceptional performance in refining segment and outperformance in logistics. Completed \$148M in buybacks in quarter and increased quarterly dividend by 7.3%. Solid pacing of California projects and expansion into Mexico seen as positives.
- **ON Semiconductor Corp. (0.25%):** *Semiconductor components manufacturer*; Results exceeded expectations driven by continued strength in the industrial end market. Gross margins higher due to higher than expected revenue, manufacturing cost reductions, mix, and supply-chain synergies from Fairchild acquisition.
- **Cavium, Inc. (0.21%):** *Semiconductor manufacturer*; Cavium was able to offset macro weakness within communications infrastructure with market share gains via the Nokia-Alcatel-Lucent acquisition and from ongoing line card densification demand in India base stations at Samsung.

- **Gardner Denver Holdings, Inc. (0.20%):** *Industrial equipment and technology provider*; Delivered considerably better than expected Q2 operational performance, with strong orders in Industrials and Energy (collectively, 90% of revs).

Weaknesses

- **Foot Locker, Inc. (-1.11%):** *Athletic shoes and apparel retailer*; Weaker-than-expected sales growth driven by a slowdown in former top styles such as Jordan models, Stan Smith and Superstar. Consumers are shifting to digital platforms for their purchases, and Adidas is gaining share over Nike – a key partner for Foot Locker.
- **National General Holdings Corp. (-0.69%):** *Personal lines insurance holding company*; Stock fell as result of a loss on a JV real estate investment, late-reported catastrophe losses from Q1, and lighter-than-projected life settlement gains.
- **Envision Healthcare Corp. (-0.59%):** *Provides physician-led outsourced medical services*; Despite beating earnings, stock fell following pressure faced by hospital companies in general. Envision saw some softening of same-contract volumes causing company to lower Q3 expectations and its FY2017 outlook.
- **Newell Brands, Inc. (-0.58%):** *Leading global consumer goods company*; Investors are focusing on organic growth and remain concerned that Newell's major categories are slowing and that its long-term goal of 3-5% top line growth will be difficult to achieve.
- **Alaska Air Group, Inc. (-0.51%):** *Airline holding company*; Negative sentiment across airlines in general. Concerns surrounding potential slowing of unit revenue outcomes as Alaska growth increases to ~10% in second half of 2017. Company also beginning arbitration with the pilot union on a new contract, which could increase costs.

Outlook

The RBC Mid Cap Value Equity strategy seeks to be invested in companies with attractive business fundamentals whose stocks are trading at a discount. Overall positioning of the portfolio is done primarily on a bottom-up basis with relative valuation gaps influencing portfolio construction within defined limits. The portfolio continues to be based on the premise that a diversified portfolio of companies with attractive return characteristics, opportunity for improvement, and low absolute and relative stock valuation metrics provide an attractive investment option and seek to avoid and at times exploit excesses that arise in both bear and bull markets. To this end, the recent risk-off sentiment in the markets has created attractive entry points for a number of new and existing holdings with portfolio positioning continuing to reflect holdings with superior return on equity and expected earnings growth while also trading at a discount on most valuation metrics.

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.

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.

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., 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(s) of Royal Bank of Canada. Used under license. © 2017 RBC Global Asset Management (U.S.) Inc.

GIPS® Compliant Presentation as of September 30, 2017

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	6.42	5.89	-1.42	2	0.17	10.15	9.13	12.4	207,926.9
2008	-30.64	-30.99	-38.44	2	0.32	18.88	18.74	8.6	164,090.1
2009	33.38	32.65	34.21	3	0.04	21.88	25.01	19.9	228,136.6
2010	26.91	26.17	24.75	4	0.08	24.52	27.11	134.4	252,397.6
2011	-2.81	-3.17	-1.38	6	0.16	22.07	22.78	222.6	244,857.4
2012	17.28	16.84	18.51	6	0.03	20.50	16.76	362.0	279,416.3
2013	33.95	32.81	33.46	7	0.52	17.66	13.69	616.7	296,003.0
2014	18.12	17.12	14.75	6	0.40	11.83	9.81	578.0	302,064.4
2015	-4.36	-5.17	-4.78	9	0.27	11.99	10.71	719.7	276,979.3
2016	15.18	14.21	20.00	9	0.22	14.42	11.30	900.0	289,538.6
YTD 2017	1.10	0.46	7.43	8	0.17	13.61	10.34	1,027.2	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 - Mid Cap Value 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 Mid Cap Value Equity Composite contains accounts that invest in a diversified portfolio of mid cap companies that we believe are undervalued by the market.

Benchmark: The benchmark for this composite is the Russell Midcap Value Index, which measures the performance of those Russell Mid-Cap 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 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 0.85% 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 0.85% calculated and applied monthly. Beginning May 8, 2006 and continuing through December 31, 2009, one non-fee paying account was included in the composite. This account represented 19% of composite assets as of year-end in 2006, 22% in 2007 and 2008, and 13% in 2009.

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: 0.85% on first \$10 million; 0.70% on next \$15 million; 0.65% on next \$25 million; 0.60% on assets over \$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 May 8, 2006 and has an inception date of January 1, 2001.

Composite History: Performance through May 5, 2006 represents the Mid Cap Value Equity track record established by the Portfolio Management Team while affiliated with a prior firm. From May 8, 2006 forward, composite performance represents accounts managed by the same team of investment professionals at RBC GAM using the same philosophy and process.

GIPS® is a registered trademark owned by CFA Institute.

®/™ Trademark(s) of Royal Bank of Canada. Used under license. © RBC Global Asset Management Inc., 2017

