



Small Cap Core Equity Strategy Update

Composite Inception Date is 9/1/1991	QTR	YTD	1 YR	3 YR	5 YR	10 YR
Small Cap Core Equity (Gross)	6.73%	6.43%	17.07%	11.15%	14.25%	9.54%
Small Cap Core Equity (Net)	6.46%	5.63%	15.90%	10.04%	13.13%	8.56%
Russell 2000 Index	5.67%	10.94%	20.74%	12.18%	13.79%	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

Favorable stock selection in the consumer discretionary (+158 bps) and information technology (+43 bps) sectors drove returns, but were partially offset by adverse selection in the industrials sector (-91 bps). In terms of sector allocation decisions, the strategy's significant overweight to the strong performing industrials sector boosted returns as did the underweight to the relatively poor performing real estate sector.

Strengths

- **Columbus McKinnon Corp.** (+1.29%): *Manufactures material handling products*; Earnings far exceeded expectations driven by strong US industrial demand for hoists and other lifting machinery, good results from a recent acquisition, and implementation of more efficient operating system.
- **Zagg, Inc.** (+1.15%): *Manufactures accessories for mobile phones and other electronic devices*; Reported strong screen protector sales and introduced new wireless charging cases for the latest generation Apple and Samsung smartphones and should benefit from the upcoming phone launches.
- **MKS Instruments, Inc.** (+1.15%): *Provides process control solutions for complex technology problems*; Posted very good quarterly results and outstanding guidance as demand remains strong across semiconductor markets driven by continued strength in overall wafer spending.
- **Patrick Industries, Inc.** (+0.70%): *Manufactures component products and materials for the RVs and manufactured housing*; Acquired Wire Design, a wire harness manufacturer, which should be immediately accretive to earnings. Quarterly sales were up 29% with strength in all business lines.
- **Take-Two Interactive Software, Inc.** (+0.63%): *Video game developer*; Significantly beat earnings expectations driven by Grand Theft Auto and its online incarnation, which both performed better than anticipated. Digital revenue overall was up 47%, and company significantly raised guidance.

Weaknesses

- **American Outdoor Brands Corp.** (-0.47%): *Firearm and outdoor sports and recreation products manufacturer*; Results hurt by high inventory levels and limited sell-through of firearms at retailers, which limited near-term orders from certain manufacturers.
- **Insteel Industries, Inc.** (-0.41%): *Manufacturer of steel wire reinforcing products for concrete construction applications*; Substantial miss as results were unfavorably impacted by lower shipment and production volumes along with narrower spreads between selling prices and raw material costs relative to the prior year's quarter.
- **Synchronoss Technologies, Inc.** (-0.35%): *Mobile innovation company*; Stock fell significantly after Sirius Capital Group withdrew its all-cash offer to acquire Synchronoss. With the floor of an all-cash takeout no longer on the table, shares tumbled over 35%.
- **Synaptics, Inc.** (-0.30%): *Makes computer hardware such as display controllers, touchpads, fingerprint sensors, etc.*; Guided down given greater competition in its biometrics products and fall-off in its discrete display driver business. Weaker fingerprint sensor pricing, the impact of Apple's move to OLED, and slower touch and display driver integration were the main culprits.
- **AZZ, Inc.** (-0.24%): *Specialty electrical equipment manufacturer*; Missed earnings estimates due to headwinds related to ongoing fallout from the Westinghouse Nuclear bankruptcy and continued softness in oil and gas. Negatively pre-announced ahead of next quarter's earnings following assessment of recent events, including hurricanes Harvey and Irma.

Outlook

The Small Cap Core Equity strategy focuses on neglected small cap companies with attractive long-term fundamentals, near-term profitability improvement potential, and low relative valuations. The strategy emphasizes market leaders with proven products or services, sustainable competitive advantages, solid balance sheets, and attractive cash flows. While sector weightings are a result of bottom-up research and stock selection, the strategy remains positioned for economic recovery with overweight positions in the economically sensitive industrials, materials, and consumer discretionary sectors. Downside protection is provided by the superior return on equity and balance sheet profile of the portfolio compared to the index and the market leadership positions of most portfolio companies. The strategy continues to trade at a valuation discount to the Russell 2000 Index on several measures while providing superior projected earnings growth and return on equity.

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.

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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	-1.49	-2.39	-1.57	5	0.48	12.74	13.16	191.0	207,926.9
2008	-30.98	-31.57	-33.79	4	0.55	18.90	19.85	113.2	164,090.1
2009	35.42	34.24	27.17	5	0.26	24.89	24.83	172.5	228,136.6
2010	31.64	30.46	26.85	4	0.28	28.19	27.69	240.1	252,397.6
2011	0.95	0.26	-4.18	7	0.61	26.61	24.99	281.8	244,857.4
2012	17.25	16.47	16.35	11	N/A ¹	21.85	20.20	522.3	279,416.3
2013	39.56	38.17	38.82	14	0.62	17.40	16.45	1,143.3	296,003.0
2014	5.32	4.28	4.89	26	0.42	13.09	13.12	1,821.2	302,064.4
2015	-6.42	-7.35	-4.41	28	0.36	14.11	13.96	1,987.8	276,979.3
2016	27.02	25.75	21.31	30	0.45	16.87	15.76	2,274.8	289,538.6
YTD 2017	6.43	5.63	10.94	31	0.25	16.27	14.27	2,406.2	319,111.8

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\$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 Core 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 Core Equity Composite consists of accounts that invest in the common stocks of companies that we believe possess above-average growth potential that is underestimated by the market and that provide attractive valuations. Target companies generally have market capitalizations within the same range as the Index upon initial purchase.

Benchmark: The benchmark for this composite is the Russell 2000 Index, which measures the performance of the 2,000 smallest companies by market cap in the more broadly based Russell 3000 Index, which in turn represents 98% of the US equity market cap. 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 1.00% applied monthly. Prior to January 1, 2013 net of fee performance was calculated using annual fees. Prior to May 8, 2006, net of fee performance reflects the maximum stated fee of 1.00% 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: 1.00% on first \$10 million; 0.90% on next \$15 million; 0.80% on next \$25 million; 0.70% 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 September 1, 1991.

Composite History: Performance presented 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 5, 2004 was Jones and Babson, Inc. Jones and Babson was an affiliated company of RBC GAM beginning May 1, 2003. RBC GAM has been the advisor to the fund since April 16, 2004. Either directly or through its affiliate, Jones and Babson, RBC GAM has had a role in sub-advisor selection of this fund since May 1, 2003. On May 8, 2006, the primary decision maker for the Small Cap Core strategy joined RBC GAM and continued to manage the strategy using the same philosophy and process.

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