Global Asset Management

September 30, 2017

SMID Cap Growth Equity

Strategy Update

Composite Inception Date is 10/1/2008	QTR	YTD	1 YR	3 YR	5 YR	Since Inc.
SMID Cap Growth Equity (Gross)	2.87%	13.67%	15.60%	11.62%	13.12%	12.85%
SMID Cap Growth Equity (Net)	2.63%	12.86%	14.51%	10.56%	12.07%	11.89%
Russell 2500 Growth Index	5.78%	17.03%	20.07%	11.27%	14.46%	12.59%

Market Recap

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 geo-political 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 1Q GDP print of +1.4%, 2Q 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 continued to improve along with employment growth, and investor sentiment remained high as strong equity returns caused even more investor inflows into the equity markets.

SMID cap growth stocks, as represented by the Russell 2500 Growth Index, returned +5.78% during the quarter, bringing its year to date return to +17.03%. During the quarter, all sectors within the Index except one were in positive territory. Telecommunications (+11.28%), industrials (+8.09%) and utilities (+8.02%) were the best performing sectors within the Index. Consumer staples was the worst performing sector (-1.45%), followed by REITs (+3.16%), and health care (+4.19%).

Strategy Overview

Performance was helped by a sector underweight and stock selection in consumer discretionary. Detractors included stock selection in technology, industrials, and financials. During the quarter, as they have all year, companies having no earnings, higher beta, and the fastest sales growth rates drove index returns. Over the course of several market cycles we have seen other periods in which unprofitable stocks have driven index performance, the last period being 2013 through the first half of 2015. We strongly believe that earnings growth drives stock prices, and that periods where index returns are largely driven by unprofitable stocks are not sustainable. While 2017 has been a challenging year so far, we will not deviate from our long-standing investment philosophy and process simply to chase short-term returns.

We ended the quarter with 78 stocks in the portfolio. Our largest overweighted sectors versus the index are health care, financials, and consumer staples, while our largest underweighted sectors are consumer discretionary and industrials.

Strengths

- **Cantel Medical (+0.35):** *Infection prevention products;* Reported fiscal fourth quarter financial results that were above consensus expectations despite tough year-ago comparisons. Management provided better than expected fiscal 2018 sales and earnings guidance while also continuing to invest for future growth.
- **Teledyne Technologies (+0.33%):** *Diversified industrial products;* Announced better than expected second quarter financial results and raised full year earnings guidance. Organic revenue growth accelerated, and particular strength was noted in digital imaging.
- **Envestnet (+0.30%):** *Financial advisory software;* Reported better than expected second quarter financial results and raised full year revenue and EBITDA guidance. Key metrics were solid, the Yodlee acquisition is bearing fruit, margins are expanding and the company announced an accretive acquisition.
- **Monro Inc. (+0.29%):** *Automotive repair services;* Announced fiscal first quarter financial results above expectations and fiscal 2018 revenue guidance. Same-store sales growth turned positive after being down in the March quarter.
- **Abiomed (+0.28%):** *Medical devices;* Reported better than expected fiscal first quarter financial results and raised the midpoint of full fiscal 2018 revenue guidance. Impella adoption trends have solid momentum in the US and the company had favorable reimbursement developments internationally.

Weaknesses

- **NuVasive (-0.44%):** *Medical devices;* Announced changes in some key management roles, including the CFO and COO positions. The company also announced it received a subpoena in regards to an investigation being conducted by the US Department of Health and Human Services.
- **PRA Group (-0.32%):** *Specialty finance;* Reported disappointing second quarter financial results. Management noted that the European market remains extremely competitive and in the US they are incurring additional expenses as they invest in new call centers.
- **Cardtronics (-0.26%):** *Consumer financial services;* Reported second quarter financial results that exceeded expectations and reaffirmed full year revenue and earnings guidance, however investors were disappointed by management's initial 2018 commentary noting slowing same-store transaction growth. The company also faces some headwinds in Australia.
- **Wabtec (-0.26%):** *Railcar technology & equipment;* Reported disappointing second quarter financial results and lowered full year revenue and earnings guidance, citing headwinds in the freight market in both the OEM and aftermarket segments.
- **Treehouse Foods (-0.25%):** *Private-label food products;* Reported second quarter earnings results that modestly exceeded expectations, however full year earnings guidance was reduced due to the challenging retail grocery landscape with muted volume trends and limited pricing power.

Outlook

We are impressed with the positive economic and stock market results achieved so far this year despite the lack of significant legislation passed by Congress. With several key legislative agenda items potentially being taken up by Congress later this year, such as tax reform, infrastructure spending, and tax repatriation, the opportunity for the economy to keep expanding for the remainder of 2017 and 2018 is promising. However, there is the possibility that few, if any, of these agenda items will be passed, which would cause uncertainty in the equity markets. Adding to the uncertainty, President Trump will likely appoint a new chair to the Federal Reserve sometime prior to year-end, to replace Janet Yellen. Financial markets will be closely watching this appointment to determine if the new Fed chair has hawkish or dovish monetary policy tendencies and whether the central bank will continue the recent pattern of slowly increasing the Fed funds rate. Given the high equity market valuations we are now seeing, there appears to be little wiggle room for policy miscalculations. Finally, we believe there seems to be a greater than usual amount of complacency among investors in the equity markets and a negative economic, financial, or political shock would not be viewed favorably.

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.

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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
2008[1]	-27.29%	-27.40%	-27.77%	1	N/A[2]	N/A[2]	N/A[2]	$9.5M	$164,090.1M
2009	36.31	35.16	41.66	2	N/A[2]	N/A[2]	N/A[2]	72.8	228,136.6
2010	34.72	33.73	28.86	2	0.04%	N/A[2]	N/A[2]	88.6	252,397.6
2011	2.82	2.11	-1.57	3	0.27	18.88%	22.94%	89.4	244,857.4
2012	18.17	17.33	16.13	3	0.37	16.35	19.82	84.4	279,416.3
2013	36.29	35.00	40.65	2	0.22	13.58	16.48	109.2	296,003.0
2014	3.85	2.86	7.05	2	N/A[2]	11.06	12.54	92.6	302,064.4
2015	1.33	0.37	-0.19	3	0.01	11.13	13.29	153.2	276,979.3
2016	12.22	11.16	9.73	2	0.02	11.84	14.67	134.5	289,538.6
YTD 2017	13.67	12.86	17.03	2	0.03	10.98	13.08	145.0	319,111.8

[1]Performance calculated from 10.1.08 to 12.31.08

[2]N/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 - SMID Cap Growth composite has been examined for the periods October 1, 2008 - December 31, 2016. 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 US 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 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: 0.95% 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.

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