Global Asset Management

Corporate Governance & Responsible Investment

2017 Semi-Annual Report
June 2017

RBC Global Asset Management's (RBC GAM) Corporate Governance and Responsible Investment (CGRI) group is pleased to present our semi-annual CGRI report that highlights our responsible investment activities for the first half of 2017.

Proxy Voting

Proxy voting is an important part of our portfolio management process as it provides us with a method of conveying our views on the governance of our investee companies. Most companies in developed markets hold their annual meetings during the spring and as a result, this is when the bulk of proxy voting activity takes place. RBC Global Asset Management (RBC GAM) has developed a comprehensive set of custom Proxy Voting Guidelines that detail how we vote on the most common proposals put forward at shareholder meetings.

Updates to the RBC GAM Proxy Voting Guidelines

Corporate governance best practices are constantly evolving and our Proxy Voting Guidelines are reviewed and updated annually. Over recent years we have seen shareholder expectations regarding shareholder rights, disclosure, and compensation change considerably. Some of the significant updates that were made in February 2017 include:

Director Compensation

A company's board of directors is an elected group of individuals acting as representatives of the company's shareholders. Consequently, director independence is of paramount importance, as any compromise of this independence may cause their interests to become misaligned with the best interests of the company. In recent years, we have seen some companies increase the compensation of directors to the point where director independence may be compromised and directors may be less likely to appropriately challenge management, which may in turn negatively impact long-term shareholder value creation.

However, the relationship between director independence and director compensation extends beyond an evaluation of compensation quantum. One must also consider the structure of director compensation to determine alignment with shareholder interests. For instance, if directors are largely compensated through company stock options, we would generally be concerned with the risk that directors may become more willing to take short-term risks in order to put those options in the money without being exposed to the same downside risks as shareholders.

Accordingly, we have updated our Proxy Voting Guidelines to include factors we will consider when evaluating director compensation.

Board Diversity

In our 2016 update to our Proxy Voting Guidelines, we outlined scenarios where we would potentially withhold votes from directors due to inadequate board diversity and policies on board diversity. Complementing this addition, in 2017 we added an additional guideline on board diversity to specifically encourage boards to publicly adopt a guideline of achieving 30% or more female participation on the board, consistent with the recommendations of the 30% Club.[1] Although this still does not achieve parity, 30% is the level at which critical mass is achieved and contributions of a minority group cease being representative of that particular group and begin to be judged on their own merit.[2] We will continue to monitor this important issue moving forward.

Executive Compensation

Executive compensation practices continue to evolve and so too must our evaluation of executive compensation plans. In order to address emerging trends in executive compensation and to better communicate how we evaluate those plans, we have updated our Proxy Voting Guidelines to include additional factors we consider when voting on say-on-pay resolutions.

Say on Pay

In Canada, approximately 80% of the S&P/TSX 60 Index has adopted say-on-pay while just under 60% of companies in the broader S&P/TSX Composite Index have done so.[3] Companies that have adopted say-on-pay give their shareholders the right to vote on whether they approve of the company's overall approach to executive compensation. The results are not binding on the company, but it is generally accepted that a company should respond in some way if it receives less than 70% support. In many markets, including the U.S., companies are required to hold say-on-pay votes and in several European countries, the vote results are binding on the company.

[1] 30% Club. https://30percentclub.org/
[2] 30% Club. https://30percentclub.org/resources/faqs
[3] Meridian Compensation Partners, "Holding Steady with Say on Pay", August 2016

For example, we will now consider inadequate disclosure of performance metrics and past say-on-pay vote results when evaluating executive compensation plans – communicating to issuers that both disclosure and responsiveness can impact our voting decisions. In addition, we've further integrated environmental and social considerations into our evaluation of executive compensation plans by stating that any significant controversies in these areas with a material impact should be reflected in the remuneration of executives.

In addition, our Proxy Voting Guidelines now specifically identify substantial payouts for performance that fall below the comparator group median or average as cause for concern. Similarly, we have also added a guideline on the impact of significant share repurchases on plans' per-share performance metrics due to concerns around the potential for these metrics to be manipulated.

These guideline updates serve to better communicate the robust process and principles we use to evaluate each say-on-pay proposal, which we will continue to update and refine each year.

Proxy Voting Record

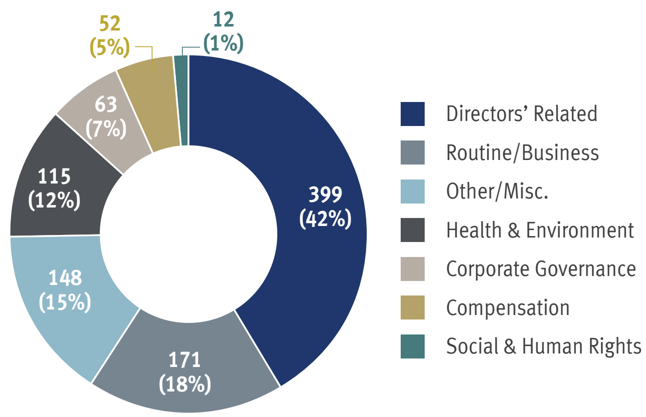
We take an active approach to all of our proxy voting. Our proxy voting team reviews all of the ballots for all of our holdings to ensure that we vote our shares in our clients' best interests. Below is a summary of our voting statistics for the first six months of 2017.

Proxy Voting Statistics[4,5], (January 1 – June 30, 2017)

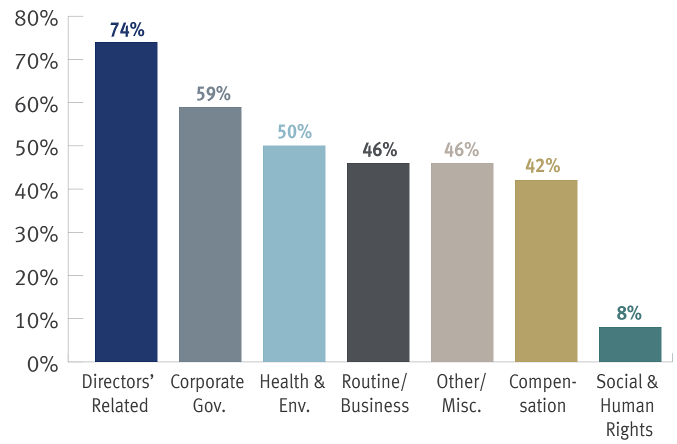
Proxy voting snapshot				
	Canada	**U.S.**	**Overseas**	**Total**
Ballot items voted	3,682	11,782	12,620	28,084
Votes WITH management	3,154	10,357	11,491	25,002
Votes AGAINST management	528	1,425	1,129	3,082
% of votes AGAINST management	**14.3%**	**12.1%**	**8.9%**	**11.0%**

[4] The proxy voting statistics include voting for all of RBC GAM with the exception of funds managed by BlueBay Asset Management LLP and externally managed sub-advised funds.
[5] Voting statistics account for proxy votes submitted by RBC GAM and may include instances where RBC GAM's proxy votes were rejected at the time of meeting, which may occur due to proxy voting administration issues in foreign markets. Voting statistics exclude instances where RBC GAM intentionally did not vote due to shareblocking restrictions.

Shareholder proposals by category



Votes "FOR" by shareholder proposal category



Proxy Season Observations

Every proxy season, certain issues and trends emerge that define what was important to shareholders in that particular year. Issues raised in previous proxy seasons continue to impact the corporate governance and responsible investment landscape, including increased company-initiated engagements and shareholder-proposed climate change resolutions. However, this proxy season, additional noteworthy issues included the first proxy access proposals brought in Canada, shareholder campaigns in the United States on gender pay equality and notable proxy votes relating to shares with unequal voting rights.

Proxy Access Crosses the Border

In the United States, shareholder proposals relating to proxy access dominated in 2015 and this trend continued – albeit to a lesser extent – during 2016. "Proxy access" refers to giving shareholders that meet specific ownership thresholds the right to include their own nominees for directors in management's information circular, subject to certain rules and limitations. In many cases, companies put forth their own proposals to establish proxy access, but the proposals often incorporated provisions that actually limited shareholder rights. As a response to this, we updated our Proxy Voting Guidelines in 2016 to make it clear that we will vote against proxy access proposals that unduly limit the rights of shareholders to nominate directors.

In 2017, the two first shareholder proposals requesting proxy access were filed in Canada at Toronto-Dominion Bank and Royal Bank of Canada. Canadian corporate and securities laws are different from those of the United States and the relevant statutes governing publicly listed companies in Canada already provide shareholders with rights similar to proxy access. However, those rights are viewed by many as more restrictive than the provisions requested in traditional proxy access proposals brought in the U.S. Both shareholder proposals received significant shareholder support and both banks publicly committed to working with shareholders and other stakeholders, including the Canadian Coalition for Good Governance ("CCGG"), to consider an enhanced proxy access regime that is appropriate for Canada. Since both banks plan to report back to their shareholders at their next annual meeting, we expect to see further discussions regarding proxy access in Canada over the next year.

Proxy Voting Details (January 31 – June 30, 2017)

	Canada			USA			Overseas			Total		
Item Category	WITH management	AGAINST management	**% AGAINST management**	WITH management	AGAINST management	**% AGAINST management**	WITH management	AGAINST management	**% AGAINST management**	WITH management	AGAINST management	**% AGAINST management**
Provide Right to Act by Written Consent	–	–	**N/A**	–	13	**100.0%**	–	–	**N/A**	–	13	**100.0%**
Amend/Approve Omnibus Stock Plan	1	11	**91.7%**	1	303	**99.7%**	3	11	**78.6%**	5	325	**98.5%**
Adopt/Amend Proxy Access Right	–	2	**100.0%**	1	37	**97.4%**	–	–	**N/A**	1	39	**97.5%**
Advisory Vote on Golden Parachutes	–	–	**N/A**	1	11	**91.7%**	–	–	**N/A**	1	11	**91.7%**
Political Lobbying/ Contributions Disclosure	1	–	**0.0%**	4	47	**92.2%**	–	–	**N/A**	5	47	**90.4%**
Gender Pay Gap	–	–	**N/A**	1	12	**92.3%**	1	–	**0.0%**	2	12	**85.7%**
Amend/Approve Executive Share Option Plan	1	68	**98.6%**	–	1	**100.0%**	15	11	**42.3%**	16	80	**83.3%**
GHG Emissions	–	–	**N/A**	2	10	**83.3%**	1	–	**0.0%**	3	10	**76.9%**
Climate Change	2	–	**0.0%**	4	16	**80.0%**	–	1	**100.0%**	6	17	**73.9%**
Declassify the Board of Directors	–	–	**N/A**	13	4	**23.5%**	–	–	**N/A**	13	4	**23.5%**
Approve Remuneration Policy	–	–	**N/A**	1	–	**0.0%**	113	25	**18.1%**	114	25	**18.0%**
Approve Remuneration Report	139	9	**6.1%**	885	95	**9.7%**	224	56	**20.0%**	1,248	160	**11.4%**
Approve Remuneration of Directors and/or Committee Members	–	–	**N/A**	–	–	**N/A**	410	44	**9.7%**	410	44	**9.7%**
Elect Director (including Cumulative)	2,431	345	**12.4%**	7,261	583	**7.4%**	4,065	365	**8.2%**	13,757	1,293	**8.6%**
Advisory Vote on Say on Pay Frequency	6	–	**0.0%**	760	68	**8.2%**	34	–	**0.0%**	800	68	**7.8%**
Reduce Supermajority Vote Requirement	–	–	**N/A**	19	–	**0.0%**	–	1	**100.0%**	19	1	**5.0%**

Reporting on the Gender Pay Gap
In 2015, the first prominent shareholder proposal requesting further disclosure on a firm's policies and goals to reduce any gender pay gap was filed at a major technology company. Although shareholder support for the proposal was modest, in 2016, the same proposal was filed at a number of other technology firms and it received considerable support. In response to those proposals, several of those companies either made statements that no gender pay gap was discovered or that plans were in place to close any gap that was identified.

Given the success of the campaign, a new campaign targeting financial companies was launched in 2017. However, although the existence of a gender pay gap in the technology sector has been a focus of shareholders for some time, the same could not be said about the financial sector. Consequently, these proposals received less support than similar ones filed with technology companies.

With that said, we saw a similar trend emerge out of this campaign in that some financial companies took it upon themselves to address the proposals' requests. The willingness of companies in both the technology and financial sectors to address the concerns raised in these shareholder proposals is interesting and perhaps indicative of the materiality of this issue to shareholders and issuers alike. We continue to evaluate these proposals on a case by case basis as the practices of individual companies, and the proposals themselves, vary greatly.

Recapitalization and Unequal Voting Rights
In recent years, the debate on the use of shares with unequal voting rights has been cast back into the limelight, predominantly due to high-profile technology companies issuing multiple-class shares as part of their initial public offerings (IPO).

Often, these are young and fast-growing companies that view their founders as crucial drivers behind the company's success. In order to access capital in the public markets while still maintaining control, these companies have issued multiple classes of shares, with the founders' class of shares containing superior voting rights compared to the publicly-traded common shares.

> Meetings of note for the 2017 Proxy Season include the meetings of Occidental Petroleum Corporation, Exxon Mobil Corporation and PPL Corporation, where shareholders filed proposals requesting that the companies assess potential impacts on their portfolios given public policies and technological advances to limit global warming to no more than two degrees Celsius. In each case, over 50% of shareholders, including RBC GAM, supported the resolutions. RBC GAM previously supported similar proposals at other oil & gas companies prior to 2017.

Some companies like Alphabet Inc. and Facebook Inc. have gone further than a traditional dual-class share structure, issuing common shares with no voting rights whatsoever after their IPO. However, in 2017, Snap Inc. opted to issue non-voting shares from the outset, creating a class of non-voting shares through its IPO. These practices are concerning to the shareholders who provide the majority of the capital for these companies due to the inherent risks such a structure represents. The disconnect between economic interest and control can lead to excessive risk taking and, in the past, we have seen entrenched founder/management teams become unresponsive to shareholder concerns.

It comes as no surprise, then, that shareholders have taken this issue into their own hands, and not just at technology companies. Amongst large companies, there has been a steady shift away from multiple-class voting structures as companies continue to acknowledge shareholder concerns on the issue.[6] Furthermore, we continue to see a consistent level of shareholder proposals requesting that shares be recapitalized to result in one vote per share. Although we

[6]Institutional Shareholder Services. *Governance Insights. Snap Inc Reportedly to IPO with Unprecedented Non–Voting Shares for Public*. 2017.

evaluate these proposals on a case-by-case basis, we continue to support the core corporate governance principle of one share, one vote.

Climate Change

In past years, shareholder proposals seeking better disclosure by companies on issues relating to climate change received minimal shareholder support. However, with the growing focus on the material risks posed by climate change, shareholder support for these types of proposals has been increasing significantly. This trend became more apparent during the 2017 proxy season when proposals seeking enhanced disclosure on two-degree scenario analyses[7] at major oil & gas companies not only gained widespread support, but majority support, surpassing the 50% threshold. Excluding shareholder proposals where management publicly declared its support, this level of support for shareholder proposals on the issue of climate change is nearly unprecedented and attests to the growing attention by shareholders to environmental, social and governance (ESG) issues.

The recent release of the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations will likely only increase this push for enhanced disclosure of climate-related risks. The TCFD recommendations seek to establish "voluntary climate-related financial disclosures that are consistent, comparable, reliable, clear, and efficient, and provide decision-useful information to lenders, insurers, and investors."[8]

Engagement

"Engagement" refers to the direct dialogue between a shareholder and the board or management of a company in which it is invested. RBC GAM actively engages with its investee companies on numerous ESG issues. Below is a snapshot of some of our engagement activity during the first six months of 2017.

Equity Compensation Plans

In our 2016 Corporate Governance & Responsible Investment Semi-Annual Report, we highlighted the increased number of engagements we had regarding compensation during the 2016 proxy season. In the first half of 2017, outside of the election of directors, equity compensation plans were our most frequent ESG engagement topic and one in which the discussions varied widely from company to company.

Our Proxy Voting Guidelines set out detailed criteria we expect to be reflected in the terms of equity compensation plans, as poorly structured plans can lead to a weak link between pay and performance.

After engaging with companies on the issue of their equity compensation plans, we often find that the company has failed to disclose aspects of the plan that actually reveal a better connection between pay and performance. We continue to encourage companies to provide robust disclosure of the terms and performance metrics of their equity compensation plans to allow shareholders to make better-informed decisions when casting their votes. It is for this reason that we view direct engagement on ESG issues as a key component of the investment process as it allows us to consistently ensure that we are fully informed and voting in accordance with our clients' best interests.

During the 2017 proxy season, we engaged directly with WestJet Airlines Ltd. on an upcoming vote asking shareholders to amend its stock option plan. Initially, the plan appeared to be contrary to our Proxy Voting Guidelines as it appeared to result in excessive dilution. However, further engagement with the company revealed both that the plan had a cashless exercise feature that significantly reduced actual dilution levels and that it was used to compensate a large number of employees as opposed to senior executives alone. Once these clarifications were incorporated into our qualitative and quantitative analyses, the plan was determined to be aligned with our guidelines and support for the plan was warranted.

[7] Limiting the increase in global temperature to two degrees was an internationally recognized goal in the Paris Climate Accord. Accordingly, these shareholder proposals request reporting on the impacts of various demand and price scenarios on the company's existing reserves in light of potential public policies and technological advances to limit global warming to no more than two degrees Celsius.

[8] Task Force on Climate-related Financial Disclosures. https://www.fsb-tcfd.org/about/

Board Diversity

As noted above, we implemented a formal proxy voting guideline on board diversity in 2016, which led to an increased number of engagements with companies on this topic. Predominantly, we engaged with issuers that had no female directors on the board and no policy on board diversity. Overall, we have been encouraged by the outcomes of these engagements.

In many cases, issuers were simply unaware of our guidelines on the issue and/or there were unique circumstances leading to their failure to meet them. For instance, on more than one occasion, the company's board previously had a female member but that female member recently left the board and a suitable replacement had yet to be identified. Alternatively, some companies were in the process of adding a female director but were unable to do so prior to their annual or special meetings. When we spoke to companies without a policy on board diversity, most were willing to commit to developing a policy as soon as possible.

> During the 2016 proxy season, we engaged with the board of Fairfax Financial Holdings Limited regarding the diversity of its board. The company was receptive to our suggestions to increase board diversity and within the year, the company had added two female directors to its board.
>
> Similar issues emerged in 2017 at the company's subsidiary, Fairfax India Holdings Corporation. By engaging with the company, we learned that an independent, female director had just recently left the board due to unexpected events and the company planned to address the issue going forward.

Such engagements serve as an excellent example of issuers and investors working together to bridge an information gap and creating better board practices. We expect to continue to engage on this topic as we work towards increasing all forms of diversity on the boards of our investee companies.

RBC Vision™ Funds

On June 30, 2017, RBC Global Asset Management Inc. (RBC GAM Inc.) merged its two socially responsible investing (SRI) suites of funds, PH&N Community Values Funds and RBC Jantzi Funds, and rebranded them into a single fund family: **RBC Vision™ Funds**. These funds had been part of the RBC GAM Inc. fund lineup available to Canadian investors for almost 15 years in the case of PH&N Community Values Funds, and over 10 years for RBC Jantzi Funds.

Reduce, Reuse, Recycle

This reorganization of the SRI fund offering at RBC GAM Inc. means a number of changes. These include reducing the overall number of SRI funds from seven to four, merging three PH&N Community Values Funds with the RBC Jantzi Funds, and then renaming the suite of RBC Jantzi Funds to a suite of RBC Vision™ Funds. These changes are summarized in the table below:

Fund Changes

Merging Funds	Continuing Fund	RBC Vision™ Fund
Phillips, Hager & North Community Values Bond Fund*	Fund was not merged, only renamed	RBC Vision Bond Fund
Phillips, Hager & North Community Values Balanced Fund	RBC Jantzi Balanced Fund	RBC Vision Balanced Fund
Phillips, Hager & North Community Values Canadian Equity Fund	RBC Jantzi Canadian Equity Fund	RBC Vision Canadian Equity Fund
Phillips, Hager & North Community Values Global Equity Fund	RBC Jantzi Global Equity Fund	RBC Vision Global Equity Fund

*The Phillips, Hager & North Community Values Bond Fund was not subject to a merger, but has been renamed.

RBC Vision™ Funds SRI Screens

Since the inception of the PH&N Community Values Funds and RBC Jantzi Funds, both fund families have employed two methods to align the portfolios with SRI principles: exclusionary screens, which exclude certain controversial industries altogether; and qualitative "best-of-sector" screening whereby companies are compared to their industry peers based on ESG practices. RBC Vision™ Funds use the same two methods, although the exclusionary industry screens reflect a blending of the criteria from the two legacy fund families, as shown in the table below.

RBC Vision™ Funds SRI Screens

Screening Criteria	PH&N Community Values Funds	RBC Jantzi Funds	RBC Vision™ Funds
Alcohol	✓		✓
Tobacco	✓	✓	✓
Military Weapons	✓	✓	✓
Gaming	✓		✓
Adult Entertainment	✓		✓
Nuclear Power		✓	

The PH&N Community Values Funds and RBC Jantzi Funds used the same qualitative "best-of-sector" screening criteria, and these have been adopted unchanged by RBC Vision™ Funds. These criteria, which are detailed in the RBC Vision™ Funds Investment Principles (available at **rbcgam.com/socially responsible investing**), assess company practices in the following areas:

- Community
- Corporate governance
- Employee relations
- Environment
- Human rights
- Product safety

Companies that have significant controversies or poor practices in these areas will be excluded from the RBC Vision™ Funds.

Looking Forward

RBC GAM believes the demand for responsible investment strategies will continue to grow, and we are proud to provide options for our clients to incorporate ESG considerations into their portfolios. A recent survey[9] conducted by the Responsible Investment Association of Canada found that 85% of Millennials aged 18-35, 80% of Generation X (36-54) and 69% of Baby Boomers (55+) are interested in responsible investing. The survey also found that 82% of investors would like to dedicate at least a portion of their portfolio to responsible investments.

As a provider of investment solutions, RBC GAM is a leader in integrating ESG into its investment decision making. All RBC GAM portfolio managers are required to develop a process to more formally integrate ESG factors into their investment process, in a way that makes sense for their particular asset classes and the investment mandates they manage. RBC GAM also maintains a four-person Corporate Governance & Responsible Investment team, the mandate of which includes providing investment managers with timely and relevant information on ESG-related research, insights and analysis.

However, for some clients, integrating ESG is not enough and they want to take the next step of actively screening out poor ESG practices from their portfolios. With the launch of RBC Vision™ Funds, RBC GAM Inc. has reinforced its commitment to socially responsible investment options for Canadian investors, and continues the SRI legacy established by PH&N Community Values Funds and RBC Jantzi Funds.

Impact Investing: Access Capital

RBC GAM provides access to impact investing opportunities through our Access Capital Community Investment Strategy (Access Capital), an investment solution offered through our U.S. operations to clients in the U.S. This strategy allows investors to pursue competitive investment returns while also achieving measurable social impacts. For example, the strategy builds stronger communities through its support of low- and moderate-income home buyers, affordable rental housing units, small business administration loans and economic development projects.

Impact Investing Defined

Impact investing is the process by which funds are allocated not only to earn a financial return but also to advance measurable social impacts. Impact investing encompasses a vast range of investments, from alternative energy projects to micro-finance and from affordable housing to growing healthy and natural foods.

[9] 2017 RIA Investor Opinion Survey, June 1, 2017: https://www.riacanada.ca/investor-opinion-survey

The strategy allows qualified investors to target their investments by geographic location and income level in order to support their own specific interests and communities. To date, nearly $1 billion (USD) in cumulative community investments in the U.S. have been made through Access Capital, with current assets under management of $966 million (USD).

The continued success of the strategy is thanks in part to its founding premise of investing in government-backed securities targeted to low- and moderate-income communities. This premise has allowed the strategy to deliver double bottom line outcomes of higher than average risk-adjusted returns while providing capital that facilitates economic development in underserved areas. We've included just a few examples of Access Capital's most recent investing activities:

Villages at Roll Hill
Cincinnati, OH

- 100% Section 8 Housing
- Largest LEED-certified affordable housing renovation in the country
- On-site programs for seniors, parenting classes, and a mentoring program
- Head start program and on-site childcare facility
- Transit Friendly Property with many amenities, including a clubhouse, basketball court, playground, and laundry facilities

The Reinvestment Fund

- This non-profit organization finances neighborhood revitalization projects by investing in homes, schools, fresh food access, and sustainable energy across the United States
- Their mission is to build wealth and opportunity for low-wealth people and places through the promotion of socially and environmentally responsible development
- Projects eligible for financing must primarily serve persons earning 80% of less of the Area Median Income
- The Reinvestment Fund's strategies have helped more than 2 million people nationwide have better access to critical services and amenities that help families start strong and stay healthy

Cumulative Community Impact

Access Capital has participated in impact investments in 49 states and the District of Columbia since inception[10] through June 30, 2017:

- 16,057 Low- to Moderate-Income Home Buyers
- 73,842 Affordable Rental Units
- 5,896 Nursing Home Facility Beds
- 27 Rural Housing
- 101 Rural Enterprise
- 503 SBA Loans
- 120 Community Economic Development
- 16 Community-Based Not-For-Profit Organizations

[10] Inception: July 1, 1998

What's Next?

The corporate governance and responsible investment landscape continues to evolve and we are excited to be contributing to this ongoing evolution on behalf of our clients. As such, we look forward to continued communications with you through RBC GAM's Corporate Governance & Responsible Investment Annual Report, which will be available in early 2018.

Publication date: (August 31, 2017)

(09/2017)
017GAM116 (08-2017)_CGRI_SA_REPORT_EN_V1_9