RBC Global Asset Management

RBC Fixed Income Pools – A three year review

It's been three years since we launched the RBC Fixed Income Pools. To say a lot has happened over this period feels like a bit of an understatement. The good news is that events of the last three years provided exceptionally good real time stress tests of our approach to building and managing the RBC Fixed Income Pools. On reflection, we can say that the Pools have performed as expected – providing a balance of diversification, income and stability to clients' investment portfolios.

When constructing the pools, we employed a few key strategies and principles to maximize risk-adjusted returns:

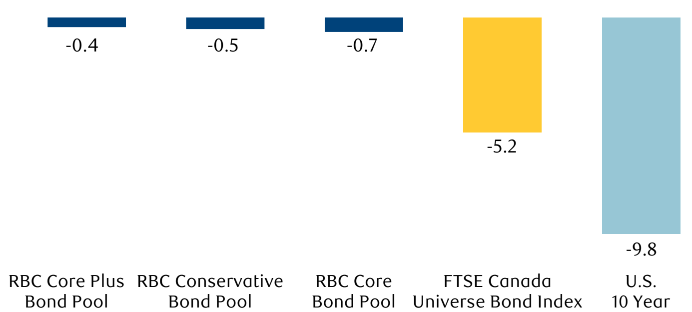
1. Globally diversifying the interest rate risk, while managing currency exposures
2. Employing multiple credit levers that aren't perfectly correlated
3. Actively managing at all levels to enhance returns
4. Keeping costs and fees low by focusing on efficiency and best execution

Highlighting a few distinct market environments we faced over the last three years helps illustrate the merits of our approach.

One of the main concerns for advisors today is rising bond yields. We've seen a few periods of rising rates over the last three years. The most significant was from August 2020 to March 2021 when the U.S. 10-year bond yield rose 124 basis points. The RBC Fixed Income Pools held their own during this period, declining less than 1% while the broader Canadian Bond market lost over 5%. Global diversification, multi-credit exposure, duration limit and active management all played a role in limiting the downside during this time.

The other notable period was the rapid credit market sell-off in the first quarter of 2020. Broad high yield market spreads rose from 338 bps in January 2020 to 1,087 bps in late March 2020. Q1 2020 returns for the Pools ranged from -0.5% for RBC Conservative Bond Pool to -2.8% for RBC Core Plus Bond Pool. The higher quality core bond components of the Pools helped mitigate the short term losses and provide diversification during this period of significant equity and credit market declines.

Return: August 2020 - March 2021



Source: Bloomberg as of April 30, 2021 Right hand chart: Source: Morningstar Direct. Returns are reflective of Series F performance. "US 10 Year" = JPM US Constant Mat 10 Yr TR. All returns are in C$ except for JPM US Constant Mat 10 Yr TR which is in US$.

As is often the case, the extreme market volatility in March 2020 provided great opportunities for active management. The Pools were positioned cautiously heading into that period, with credit allocations close to home and a higher quality bias. Our investment teams adjusted quickly and selectively added to securities and asset classes that were providing attractive yields relative to the underlying risks. Our clients benefited significantly from these activities, as each of the RBC Fixed Income Pools outperformed their underlying composite benchmark in 2020 by over 200 bps, before fees.*

Current positioning

Credit markets have rallied from the wide spreads of March 2020 to levels that are near or below what we saw pre-COVID amid investor expectations of continued government stimulus programs, successful vaccination campaigns and the resulting improved economic activity. As future reward potential shrinks, we have been paring back some of the credit allocations that were tactically added back in the spring of 2020.

We still see attractive opportunities in emerging market (EM) bonds as sovereign spreads remain above longer term averages. The economic outlook of EM countries is improving as an accelerating pace of vaccinations supports a continued recovery into the second half of the year. These are also the countries that benefit from the renewed growth in developed markets. The EM fiscal health has improved on a relative basis as DM countries opened their own fiscal taps with abandon. The improving growth picture should support EM sovereign spreads and select EM currencies.

High yield corporate debt is supported by the fundamental backdrop of a robust economy, low defaults and stronger corporate balance sheets. However, spreads are very tight relative to historical levels, leaving limited opportunity for gains from further narrowing. Having reduced overweights, for now we continue to hold high yield bonds in the portfolio to collect the higher coupons in what remains a fairly positive environment for credit.

RBC Fixed Income Pools performance and characteristics

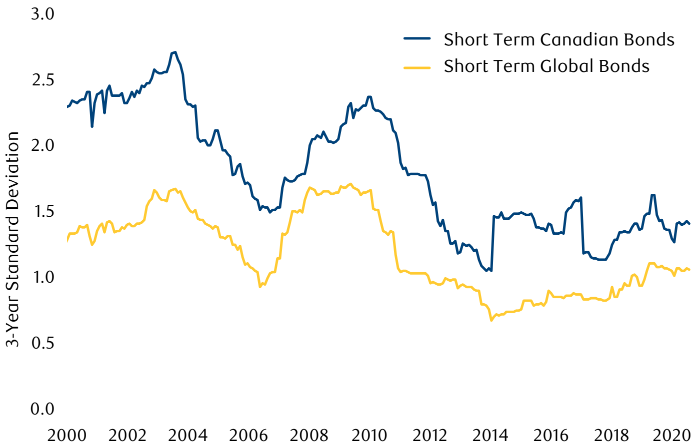
	1 Yr. return[1]	2 Yr. return[1]	3 Yr. return[1]	Yield to maturity	Duration
RBC Conservative Bond Pool	1.4%	3.3%	4.3%	1.8%	4.0
RBC Core Bond Pool	2.1%	3.9%	5.2%	2.3%	5.4
RBC Core Plus Bond Pool	2.8%	4.0%	5.4%	2.5%	5.5

Source: RBC GAM as of August 31, 2021. Returns are reflective of series F performance. Portfolio characteristics are subject to change. Yield to maturity is gross of fee.

Looking ahead

RBC Fixed Income Pools will continue to evolve with our investment capabilities and market opportunities. One recent example of this evolution was in April of this year when we added RBC Short-Term Global Bond Fund to the strategic allocation within all three of the Pools. This fund was created to address our explicit need in the Pools, to be able to diversify globally shorter duration exposures in sovereign markets. We expect this fund to help us further improve risk adjusted returns. Global short-term bonds have historically been less volatile than Canadian short-term bonds and can therefore be expected to provide a more consistent return experience for investors, along with access to greater alpha opportunities.

Global bonds have been less volatile than Canadian bonds



"Short Term Global Bonds" = FTSE WGBI 1-5 Yr Hdg CAD Index, "Short Term Canadian Bonds" = FTSE Canada Short Term Bond Index. Source: Morningstar Direct as of July 31, 2021

We believe the RBC Fixed Income Pools remain an attractive fixed income solution for clients' balanced portfolios. With bond yields expected to remain relatively low for the foreseeable future, our approach of globally diversifying, employing multiple credit levers and utilizing active management will be critically important to building resilient portfolios that deliver attractive returns for clients.

*RBC Fixed Income Pools benchmark returns are based on the benchmarks of the underlying funds weighted according to each underlying fund's target weight in the top fund:

RBC Conservative Bond Pool – 56% - FTSE Canada Short Term Overall Bond Index, 14% - FTSE Canada Universe Bond Index, 4% - FTSE WGBI Index Cad Hedged, 6% - 40% Bloomberg U.S. Corporate Bond Index (hedged back to $C) 20% Bloomberg Pan European Aggregate Corporate Bond Index (hedged back to $C) 15% FTSE Canada All Corporate Bond Index 10% JPM EMBI Global Diversified Index (hedged back to $C) 10% ICE BofA U.S. High Yield BB-B Index (hedged back to $C) 5% Bloomberg Asia-Pacific Corporate Bond Index (hedged back to $C), 5% - Bloomberg Global Aggregate Corporate Bond Index (CAD Hedged), 4% - JP Morgan CEMBI Diversified Index , 7% - JP Morgan Emerging Local Markets Index (ELMI+) (C$), 4% - 50% JPM EMBI Global Diversified Index (hedged back to $C) 50% ICE BofA U.S. High Yield BB-B Index (hedged back to $C).

RBC Core Bond Pool – 31% FTSE Canada Universe Bond Index, 28% FTSE Canada Short Term Overall Bond Index, 10%: 40% Bloomberg U.S. Corporate Bond Index (hedged back to $C) 20% Bloomberg Pan European Aggregate Corporate Bond Index (hedged back to $C) 15% FTSE Canada All Corporate Bond Index 10% JPM EMBI Global Diversified Index (hedged back to $C) 10% ICE BofA U.S. High Yield BB-B Index (hedged back to $C) 5% Bloomberg Asia-Pacific Corporate Bond Index (hedged back to $C), 10% FTSE WGBI Index Cad Hedged, 7% JP Morgan CEMBI Diversified Index, 5% Bloomberg Global Aggregate Corporate Bond Index (CAD Hedged), 5% JP Morgan Emerging Local Markets Index (ELMI+) (C$), 4%: 50% JPM EMBI Global Diversified Index (hedged back to $C) 50% ICE BofA U.S. High Yield BB-B Index (hedged back to $C)

RBC Core Plus Bond Pool – 28% FTSE Canada Universe Bond Index, 16% FTSE Canada Short Term Overall Bond Index, 12% FTSE WGBI Index Cad Hedged, 10%: 40% Bloomberg U.S. Corporate Bond Index (hedged back to $C) 20% Bloomberg Pan European Aggregate Corporate Bond Index (hedged back to $C) 15% FTSE Canada All Corporate Bond Index 10% JPM EMBI Global Diversified Index (hedged back to $C) 10% ICE BofA U.S. High Yield BB-B Index (hedged back to $C) 5% Bloomberg Asia-Pacific Corporate Bond Index (hedged back to $C), 10% Bloomberg Global Aggregate Corporate Bond Index (CAD Hedged), 9% JP Morgan Emerging Local Markets Index (ELMI+) (C$), 4%: 50% JPM EMBI Global Diversified Index (hedged back to $C) 50% ICE BofA U.S. High Yield BB-B Index (hedged back to $C), 4% JP Morgan CEMBI Diversified Index, 2.5% JP Morgan EMBI Global Diversified Index (USD), 2.5% JP Morgan GBI EM Global Diversified Index (USD), 2% Thomson Reuters Convertible Global Focus Index (CAD Hedged).

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