RBC Global Asset Management

Stewardship in action

2018 Corporate Governance and Responsible Investment Annual Report

What's inside:

- Proxy voting: Voting statistics and highlights
- ESG engagements: Engaging with companies on climate change, gender diversity, and more
- Charting a sustainable advantage: Results from our 3rd Annual Responsible Investing Survey
- Integrating ESG in fixed income: A look at our Investment Grade Corporate Credit team

CIO message

We are pleased to share with you our 2018 Annual Report, which highlights our recent activities, progress and achievements regarding our commitment to responsible investment. RBC Global Asset Management (RBC GAM) continues to believe that integrating environmental, social and governance (ESG) factors into our investment process is part of our fiduciary duty and will enhance the long-term performance of our portfolios.

We view the integration of ESG as a competitive advantage in our investment process and continue to make strides firm-wide in this regard as our investment teams develop unique, effective approaches to considering and implementing material ESG factors. As a result of our progress in 2018, we largely improved on past scores for our annual Principles for Responsible Investment (PRI) Transparency Report. The PRI assesses signatories' approaches to the Principles, and we were pleased with our strong results. Specifically, the PRI gave each of our modules a score of A+, excluding the "Listed Equity – Active Ownership" module, in which we received a score of A.

During 2018, we updated our *Approach to Responsible Investment* to communicate our stronger focus on climate-related investment risks and opportunities as part of our ESG integration efforts. This is just one example, however, of our many efforts to constantly innovate and remain at the forefront of the responsible investment landscape. 2018 also saw us continue to develop solutions and strategies to meet our clients' evolving responsible investment objectives, further enhance our proxy voting guidelines to address emerging trends, and further develop our proactive ESG engagement program.

Over the past year, we made significant headway in achieving our responsible investment objectives. We are committed to enhancing our investment processes and actively engaging with our investee companies. In addition to reading this Annual Report, we invite you to visit our Corporate Governance & Responsible Investment website where you will find additional highlights of our responsible investment achievements.

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Global Asset Management

2018 highlights

Throughout 2018, our investment teams continued to make tangible improvements in their respective ESG integration processes and our dedicated Corporate Governance & Responsible Investment (CGRI) team further built upon the foundations of our approach to responsible investment – demonstrated in part by the activities highlighted below.

Principles for Responsible Investment

In March 2018, RBC GAM filed our annual PRI Transparency Report. The PRI assesses signatories' approaches to the Principles based on its assessment methodology.

We were encouraged by our continued strong results this year. Specifically, the PRI gave each of our modules scores of A+, with the exception of the "Listed Equity – Active Ownership" module, in which we were awarded a score of A[1].

We were particularly encouraged by the progress we made in our scores within the fixed income modules, as our fixed income investment teams continue to make meaningful strides in their integration of ESG factors.

As in past years, we are encouraged by our scores, but believe that a thorough review of our assessment is required as we continue to implement and improve upon best practices and position ourselves to better apply the Principles.

Japan Stewardship Code

In October 2018, RBC GAM accepted the Japan Stewardship Code[2] (the Code) and detailed how we will comply with our *Commitment to the Japan Stewardship Code*[3].

The Code addresses the responsibilities of institutional investors to enhance investment returns for clients and beneficiaries over the medium to long term by acting as responsible stewards. It advocates for the improvement of investee companies' value and sustainable growth through constructive engagement with companies, active proxy voting designed to contribute to sustainable company growth, transparency and regular reporting, as well as developing in-depth knowledge of investee companies and their business environments. Importantly, the Code notes that by acting as responsible stewards, institutional investors can contribute more widely to economic growth.

Corporate governance in the Japanese market continues to rapidly evolve and our acceptance of the Code exemplifies our commitment to act as responsible owners, always acting with the best interests of our clients in mind.

[1] Principles for Responsible Investment. About PRI assessment.
[2] The Council of Experts on the Stewardship Code. Principles for Responsible Institutional Investors Japan's Stewardship Code
[3] RBC Global Asset Management. Commitment to the Japan Stewardship Code.

ESG integration

It is our view that it is optimal for each of our investment teams to develop their own methods to integrate ESG factors into their respective investment processes. This bottom-up approach ensures that the integration of ESG factors adds value and complements the teams' well-established investment processes, since each team is able to focus on methodologies that work best for it, as well as the ESG issues it deems most material to its investments.

Several of our investment teams made notable additions to further integrate ESG factors into their investment processes in 2018. For instance, BlueBay Asset Management LLP's public debt team built upon strong ESG integration practices by rolling out a proprietary issuer ESG evaluation methodology that feeds into the wider investment decision-making process. This extensive project formalized the team's analysis of material ESG issues. The assignment of explicit fundamental ESG risk ratings and investment ESG scores carries the added benefit of meaningful tracking. Later in this report, we highlight the ESG integration process of the Phillips, Hager & North (PH&N) Investment Grade Corporate Credit team. Finally, we were pleased to see our Global Equity team be recognized as a member of Real Impact Tracker's "Certified Community." Real Impact Tracker reviews investment managers' approach to shareholder advocacy, ESG investing, and action in the public sphere to determine their social and environmental impact. Awarded with a rating of 9.6, the Global Equity team now counts itself among a small, select group of like-minded investors recognized for their integration of ESG throughout the investment process[4].

From a firm-wide perspective, we recently added TruValue Labs™ (TruValue) to the suite of ESG research available to our investment teams. TruValue utilizes artificial intelligence to process vast quantities of ESG data and allows users to focus on the ESG categories deemed material by the Sustainability Accounting Standards Board (SASB). Of particular interest, the Truvalue Platform™ system relies on news and information from non-company sources, providing an indication of how companies are acting on material ESG issues – separating the companies that 'talk the talk' from those that 'walk the walk.' As the concept of Big Data extends into the realm of ESG, we see the use of artificial intelligence as a natural evolution in the ESG integration process and a potentially valuable news and analytical source for our investment teams.

[4] Real Impact Tracker. RBC Global Asset Management | Real Impact Tracker.

Principles in perspective

We believe that transparency and accountability are of vital importance to institutional investors. Accordingly, we strive to provide our clients with regular reporting on our responsible investment and ESG integration activities. Beyond updates on our activities, we aim to publish topical ESG-related information for our clients, providing them with a better idea of the issues we are thinking about and addressing in our day-to-day activities.

For instance, throughout 2018, we published several thought pieces on trending ESG topics including:

- The growth of responsible investment and ESG integration, with a focus on the impacts of ESG integration on returns and the shifting focus of investors on using ESG factors to generate alpha;
- The emerging cannabis industry and its impact on socially responsible investing strategies, specifically as it relates to the RBC Vision strategies;
- The notable rise in volume and sophistication of environmental and social shareholder proposals at investee companies and how we approach voting on such resolutions; and
- The materiality of plastics and plastics recycling for investors, viewed through the lens of the growing business risks of plastics pollution and the corresponding increase in investor scrutiny.

We regularly publish thought pieces on a range of ESG-related topics and encourage you to view them on our webpage at rbcgam.com/cgri.

Responsible investing strategies

At RBC GAM, we strive to offer our clients innovative strategies that respond to emerging trends and changing investing requirements. Consequently, with so much investor focus on ESG integration, we recently developed specific strategies to meet our clients' investment needs in this regard.

> "We believe that transparency and accountability are of vital importance to institutional investors."

Equity women's leadership strategy

In March 2018, we launched the newest addition to the RBC Vision suite of strategies in Canada: RBC Vision Canadian Equity Women's Leadership strategy. This strategy seeks to replicate the performance of a broad Canadian equity market index with a focus on companies domiciled in Canada that have demonstrated a commitment to gender diversity as part of their corporate social responsibility strategy. This strategy is reflective of increasing investor focus on gender diversity at both the board and management levels, and it provides an investment strategy for clients interested in leveraging the potential competitive advantage of gender-diverse companies.

Impact bond strategy

2018 was also the first full year of our new RBC Impact Bond strategy. Launched in the United States in late 2017, this strategy focuses on investments making net-positive environmental and social impacts, while simultaneously delivering competitive returns. Building on its successful Access Capital Community Investment strategy, our U.S. Fixed Income team is developing a robust analytical framework that will allow it to capture both the positive and negative impacts of its investments across a proprietary set of impact areas. We view this approach as a differentiator in the market, as the wide array of data inputs allows the team to make a fundamental assessment of impact, rather than relying on revenues alone.

"We strive to offer our clients innovative strategies that respond to emerging trends and changing investing requirements."

For instance, whereas some impact strategies may deem a security investable due to the issuer's creation of jobs in local economies, RBC Impact Bond strategy takes a closer look at an issuer's activities and may determine that the issuer has a net-negative impact as it produces harmful products or has a history of negative environmental or societal impacts. This exciting work will continue in 2019, and we expect to be able to discuss new developments throughout the coming year.

Legalization of cannabis

Our RBC Vision strategies were impacted by the legalization of cannabis in Canada in 2018. The Canadian federal government was clear in its intention to legalize recreational cannabis since being elected in 2015 and, consequently, the cannabis industry has attracted significant investor capital. Responsible investors are faced with the decision of how to treat cannabis companies in their portfolios.

Ultimately, guided by the Government of Canada's approach to subject cannabis to substantially the same regulatory regime as alcohol and tobacco, RBC GAM is treating cannabis companies the same way it currently treats alcohol and tobacco issuers in the RBC Vision suite of strategies. An exclusionary cannabis screen is being applied to the RBC Vision strategies that currently employ broad-based (i.e., not thematic) socially responsible investing exclusionary screens. However, cannabis does have legitimate medical applications and we are waiting to see how the industry develops, how contentious issues related to cannabis sales play out and what kind of reporting and data will be provided by market participants to determine if an exemption for medical cannabis is practical and warranted. Given the current landscape, we have determined that it is not yet possible to definitively distinguish between recreational and medical cannabis revenues. Consequently, at this time, we are taking a conservative approach and considering all cannabis-related revenue as recreational when calculating revenue thresholds for the RBC Vision suite of strategies. In the long term, we intend to delineate between medical and recreational cannabis revenues to apply our threshold calculations. We will continue to monitor developments in the industry to determine if the quality of the data has improved to the point where a definitive distinction is possible.

Responsible investing: Charting a sustainable advantage

In 2018, we published our 3rd Annual Responsible Investing Survey, *Responsible investing: Charting a sustainable advantage* [5]. The survey drew responses from more than 540 participants around the world, including the United States, Canada, Europe, and Asia. Further, respondents came from all corners of the investment business, including pension plan sponsors, consultants, foundations, and government organizations, among others.

Exploring respondents' attitudes towards responsible investing and ESG integration, the survey results were insightful. Additionally, issuing the survey for the third consecutive year has allowed us to gain insights into some short-term trends. We encourage you to review the full survey results at rbcgam.com/cgri, but some of the broader global highlights include:

Over 70%

of respondents "significantly" or "somewhat" use ESG principles as part of their investment approach and decision making.

- This is a slight increase from 2017
- Investment consultants appear to be endorsing responsible investing in greater numbers, with most saying that over the coming year, they expect to increase allocations to managers who incorporate ESG factors into their investment process.

38%

of survey respondents believe that integrating ESG factors can help generate alpha – nearly double from last year.

- There is strengthening conviction among institutional investors that ESG intergration is in fact an alpha source, although significant skepticism remains. 39% of U.S. investors and 30% of Canadian investors believe integrating ESG factors can help generate alpha.

Over 80%

of consultants reported that the most common question asked by clients was whether ESG integration would hurt investment returns.

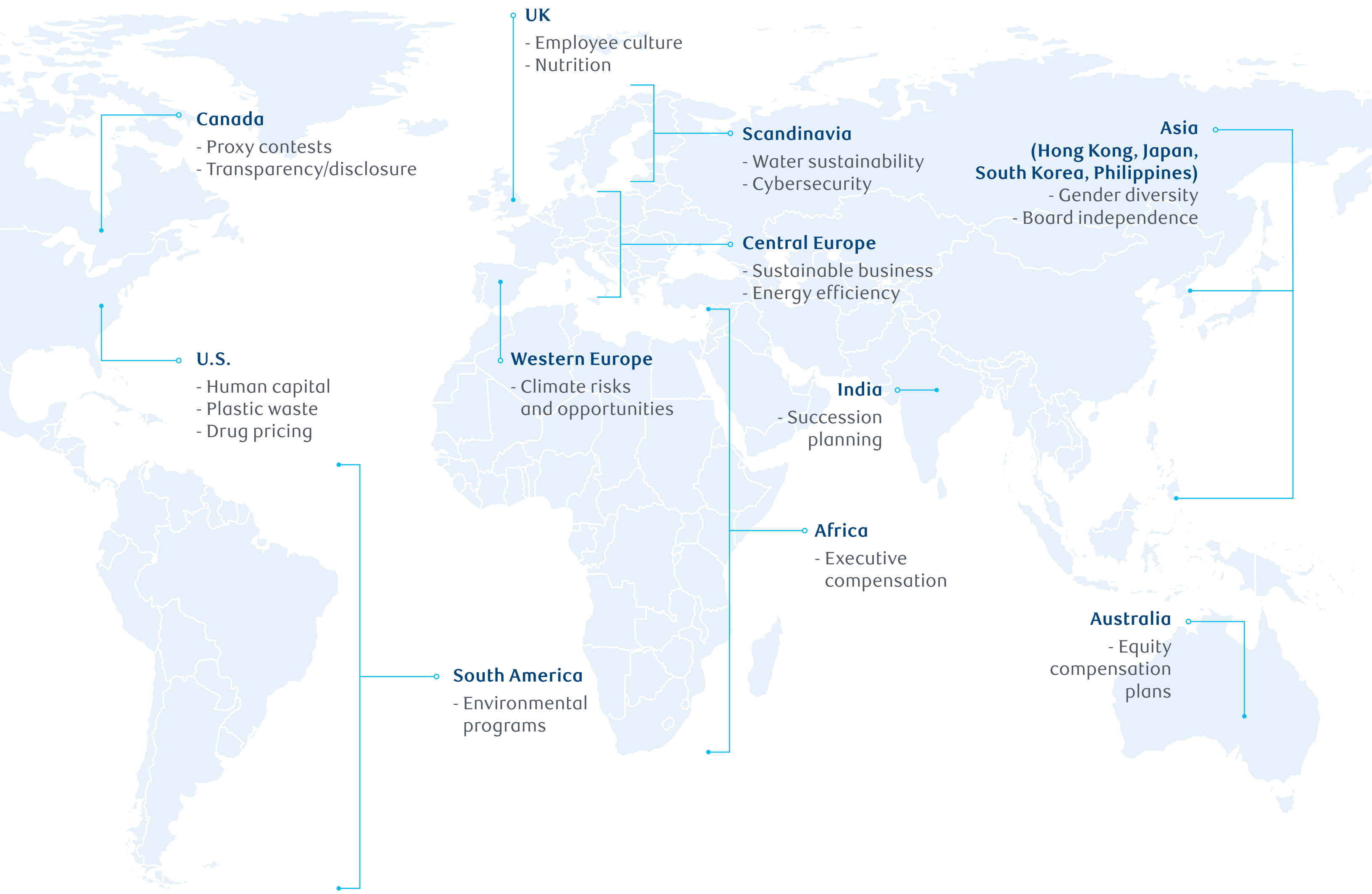
- Investment performance has long been a primary concern of institutional investors considering the adoption of ESG principles. This is subsiding as 31% of investor respondents believe an ESG-integrated portfolio is likely to have superior returns (versus 18% in 2017).

84%

of respondents who incorporate ESG factors into their investment process do so in equities.

- However, the survey also indicates that ESG analysis is moving beyond equities, as 60% of respondents said they incorporate it into their fixed income portfolios, 43% with real estate, 36% with infrastructure and 34% with alternative assets.

[5] RBC Global Asset Management. Responsible Investing: Charting a Sustainable Advantage.



Engagement and collaborative initiatives

Engagements on ESG issues play a vital role in our ESG integration efforts and our wider investment process. Information obtained from such engagements reveals risks and opportunities and often provides insights as to how boards and management are addressing material ESG issues.

Direct engagements

2018 saw a noticeable increase in the number of invitations to engage from our investee companies. As in 2017, these invitations were primarily governance focused. However, numerous issuers, especially in the Canadian market, reached out to us specifically on ESG disclosure. In our view, the value placed on specific ESG information differs by investor, as each investor will have unique views on the materiality of certain information. However, frameworks such as those promoted by SASB and the Task Force on Climate-Related Financial Disclosures (TCFD) can serve as useful guides for issuers, and we generally encourage issuers to review them.

We also continued to further develop our own proactive ESG engagement efforts in 2018. Our investment teams proactively engage with investee companies on ESG risks and opportunities they view to be material to their respective investments, and the CGRI team has developed a system to identify specific companies that may be facing material risks on specific, thematic issues such as climate change and gender diversity.

Overall, our engagements resulted in fruitful discussions with various issuers across a wide range of ESG topics. Examples of engagements in 2018 include:

Drug pricing continues to be a controversial topic, predominantly in the United States. This issue is a complex one, with regulatory and health insurance plans playing key roles in pricing decisions, and companies balancing affordability with profitability that can be used to further invest in new drugs to combat illness and disease. Accordingly, we engaged with major drug companies on this issue, primarily focusing on two separate aspects. The first aspect related to disclosure on the direct risks and opportunities associated with drug pricing, including views on potential regulatory changes, reputational implications, and perceptions that drug-price increases are a driving force behind earnings increases. In general, we encouraged companies to disclose their views on the materiality of this issue, as transparency on complex issues such as this one allows investors to determine the adequacy of the company's views and plans.

The second area of focus related to specific shareholder proposals filed at several pharmaceutical companies requesting enhanced disclosure on the integration of risks related to drug pricing into executive compensation plans. We were generally supportive of these proposals, as the enhanced disclosure would add value for investors and would not be burdensome for the companies. Further, we discussed existing disclosure on the links between drug pricing and executive compensation, and encouraged enhanced disclosure where appropriate.

We updated our *Approach to Responsible Investment* to clearly communicate how we will work towards further integrating climate-related risks and opportunities into our investment process. One component of our strategy to further integrate climate-related issues into our investment process is direct engagement with our investee companies. For example, we engaged with a European oil and gas company on its efforts to reduce emissions, including a commitment to eliminate flaring activities. The company explained its shift in strategy to move towards cleaner fossil fuels, such as natural gas, its investments in innovative technologies to reduce the carbon footprint of its operations, and its scenario-modeling activities incorporating carbon pricing. Another engagement with a European oil and gas company was due to a high-profile proxy vote regarding the company's existing emission-reduction targets. We engaged with both the company and the shareholder proponent and view the company as an industry leader in considering the long-term effects of climate change on its portfolio. Although the vote itself became quite contentious, it fostered a meaningful discussion among investors and provided us with an avenue to gain greater insights into the company's climate-transition strategies.

Our continued efforts to enhance the representation of women on the boards of our investee companies have moved from being a focus in proxy voting to also including engagements. Direct engagements on gender diversity resulted in commitments from boards to enhance gender diversity or adopt more robust diversity policies. In addition, we have often seen companies make note of their board gender diversity when other ESG topics prompted the engagement. Although much work remains to be done, we continue to see the focus of boards shift towards the value-adding benefits of enhanced diversity.

Proxy contests can be vital to long-term shareholder value. Accordingly, we must consider numerous factors in our proxy analysis and eventual votes, as the results could dictate the path for our investee companies for years to come. Each proxy contest is unique, and, our investment teams generally have ongoing discussions with the board, management, dissidents, and solicitors, often right up until the day of the vote. These intensive engagement efforts ensure that we gather as much information as possible in order to reach well-informed, thoroughly analyzed decisions. This year, our North American Equity team took part in significant engagements related to some high-profile proxy contests. For instance, when a proxy contest was launched at a struggling oil and gas company, the team engaged with the board and determined that the board was taking effective steps in order to turn the company around, including a revised strategy, changes to its portfolio composition, and updates to its capital-allocation process. After further research and engagements with the dissident, the team supported the management slate at the proxy contest, and we continue to engage regularly with the board on their efforts to turn the company around.

Our Global Equity team engaged with a mining company in the midst of exiting a contentious mine in Southeast Asia. The mine is one of few to still use a riverine-tailings disposal method that has been banned in many developed countries. We are supportive of the company leaving the project, but communicated that appropriate environmental management through the transition will be critical and expect continued engagement on the topic moving forward.

Consistent with its focus on sustainable businesses, our European Equity team engaged with a French auto-parts company on the energy intensity of its operations. As a tire manufacturer, the company's production process is energy intensive, and with dozens of production facilities, transport further adds to energy consumption. However, our team was reassured by the company's commitment to reduce the energy intensity of its production in half by 2020. The team also discussed the company's transition to a new CEO, since new management can sometimes impact the strategies that our investment teams support. However, the investment team was reassured by the fact that the incoming CEO already has a long tenure with the company, shares many of the same values of the outgoing CEO, and has shown himself to be supportive of innovation.

Throughout 2018, our Emerging Markets Equity team engaged with numerous South Korean companies on board gender diversity. Historically, South Korean companies have had poor female director representation. According to Egon Zehnder, the number of boards with at least one female director in South Korea has been slowly increasing from 15% in 2014 to 29.6% in 2018 (for the reviewed companies.) However, despite this progress, no analyzed board had more than one female director in 2018[6]. Accordingly, the team engaged with various boards on the merits of enhanced board diversity and limitations to companies that fail to leverage these advantages.

Collaborative initiatives

Expert Panel on Sustainable Finance

As countries around the world work towards the transition to a low-carbon economy, Canada's Minister of Environment and Climate Change (ECCC) appointed the Expert Panel on Sustainable Finance (Panel) in April 2018. The Panel was asked to engage with stakeholders, including Canada's financial markets participants, on the challenges and opportunities related to sustainable finance and climate-related disclosures. Further, the Panel was asked to develop recommendations on next steps for the Government of Canada to consider as it works to promote the country's low-carbon economic transition[7]. As long-term investors, we view the risks and opportunities associated with climate change as critically important to Canada's economy, our clients, and future generations.

Accordingly, we welcomed the opportunity to engage with the Panel alongside like-minded investors. The focus of our engagement in 2018 was primarily to provide the Panel with input on disclosure practices of Canadian issuers and the implications of potential regulatory changes on capital markets and industry.

We have been encouraged by the Panel's work to date and look forward to continued collaboration moving forward.

Responsible Investment Association (RIA)

RBC GAM is a sustaining member of the RIA, Canada's industry association for responsible investment. As an active member of the RIA, we participated in many of its activities during the year, including:

- The RIA Policy Stewardship Group provided feedback and comments to the aforementioned Canadian Expert Panel on Sustainable Finance, both in person and in writing.
- The RIA Policy Stewardship Group engaged with securities regulators recommending amending National Instruments to add diversity and climate content in disclosure requirements.
- The RIA sent a comment letter to the Ontario Securities Commission regarding proposed changes to National Instrument 31-103 regarding the inclusion of ESG questions in proposed changes to the Know Your Client (KYC) requirements.

[6] 2018 Global Board Diversity Tracker: Who's Really on Board? Egon Zehnder.
[7] Government of Canada launches Expert Panel to help Canada tap into trillion-dollar opportunity from clean growth and climate action. Government of Canada.

Investor Stewardship Group (ISG)
The ISG was founded in 2017 as a collective of institutional investors brought together to establish the Framework for U.S. Stewardship and Governance (the Framework). The Framework takes the form of a set of stewardship principles for institutional investors and corporate governance principles for U.S.-listed companies. As a founding member of the ISG, RBC GAM was pleased to see the Framework put into effect in January 2018.

Now backed by a group of over 50 U.S. and international investors with roughly $22 trillion in assets, the ISG made notable progress in 2018. For example, the ISG partnered with the John L. Weinberg Center for Corporate Governance at the University of Delaware, one of the longest-standing corporate governance centers in academia[8]. In addition, the ISG adopted an amendment process for the Framework and established internal committees to ensure "effective guidance and governance of its own affairs[8]."

We are encouraged by the ISG's progress and growth and look forward to continued collaboration with its signatories as we work to broadly communicate corporate governance expectations for U.S. companies and recommended stewardship behaviour of fellow institutional shareholders.

PRI Cyber Security Advisory Committee
RBC GAM serves as a member of the PRI Cyber Security Advisory Committee. The committee was formed to allow members to engage alongside like-minded investors on the transparency, risk management and strategies related to cyber security and data management In the last several years we have seen that many companies are at risk of cyber security breaches that could expose client data (potentially resulting in its malicious misuse) or confidential strategic information. As an active member of the committee, RBC GAM led an engagement in 2018 with a financials company and were encouraged by the company's feedback.

Canadian Coalition for Good Governance (CCGG)
Representing the interests of institutional investors, CCGG promotes good governance practices in Canadian public companies. It also seeks to improve the regulatory environment to promote the efficiency and effectiveness of the Canadian capital markets and align the interests of boards and management with those of their shareholders. RBC GAM is a founding member of CCGG and RBC GAM's Chief Investment Officer, Daniel E. Chornous, is the past Chair and a current director. RBC GAM was also represented on CCGG's Public Policy Committee.

RBC GAM is an active participant in CCGG's collective engagement program. In 2018, CCGG completed 37 collective engagements, with RBC GAM directly participating in several of those engagements.

We also actively participated in a variety of regulatory initiatives through CCGG relating to corporate governance and shareholder rights, including the following submissions:

- Letter to Canadian Securities Commissions on Soliciting Dealer Arrangements
- Letter to Prince Edward Island (PEI) government requesting majority voting and other amendments to PEI's corporate statute
- Letter to the British Columbia Securities Commission on gender and other diversity, April 2018
- CCGG Canadian Senate Brief: Bill C-25

RBC GAM also participates in CCGG's policy initiatives designed to encourage issuers to adopt governance best practices. We actively support CCGG's ongoing, multi-year initiatives to improve shareholder rights, including:

- Encouraging companies to adopt majority voting policies
- Encouraging the use of universal proxies in contested elections
- Working to enhance board and management gender diversity
- Encouraging companies to voluntarily adopt say on pay advisory resolutions
- Working to change the law to make say on pay mandatory for all Canadian companies

[8] Investor Stewardship Group. News.

Proxy voting

How we voted[9,10]

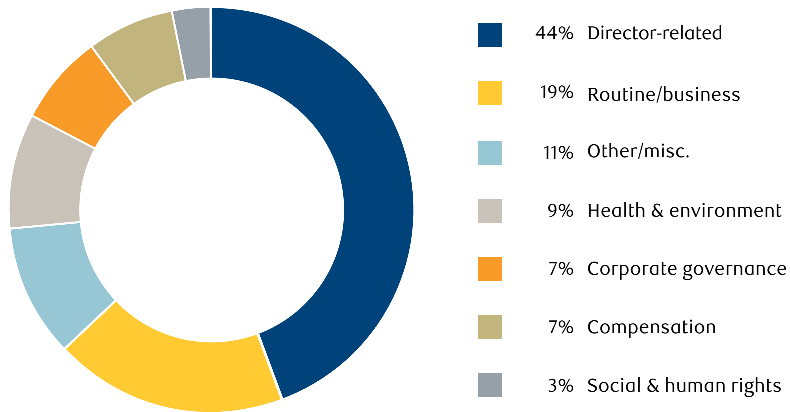
Below is a snapshot of our voting in 2018.

Proxy voting snapshot				
	Canada	U.S.	Overseas	Total
Ballot items voted	3,817	11,980	17,122	**32,919**
Votes WITH management	3,252	10,554	15,552	**29,358**
Votes AGAINST management	565	1,426	1,570	**3,561**
% of votes AGAINST management	14.8%	11.9%	9.2%	**10.8%**

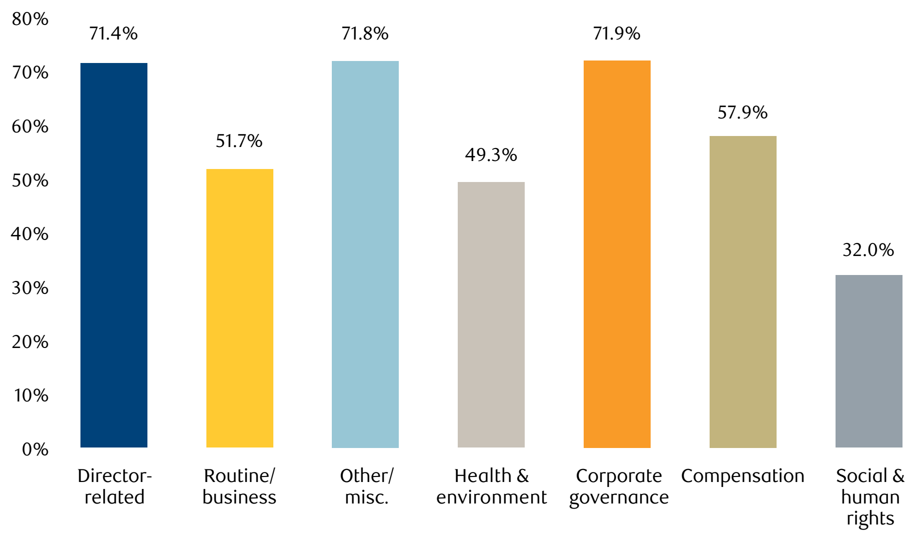
Overview of our voting record by issue[11, 12]

	Canada			U.S.			Overseas			Total		
Item category	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt
Require independent board chairman	0	1	100.0%	0	39	100.0%	0	4	100.0%	0	44	100.0%
Adopt or amend proxy access right	0	0	N/A	0	31	100.0%	0	0	N/A	0	31	100.0%
Publish two degree scenario analysis	0	0	N/A	0	3	100.0%	0	0	N/A	0	3	100.0%
Amend articles/bylaws/charter to call special meetings	0	0	N/A	1	51	98.1%	0	0	N/A	1	51	98.1%
Amend or approve omnibus stock plan	0	15	100.0%	2	197	99.0%	4	17	81.0%	6	229	97.4%
Political contributions and/or lobbying disclosure	0	3	100.0%	6	45	88.2%	1	0	0.0%	7	48	87.3%
Report on EEO	0	0	N/A	1	6	85.7%	0	0	N/A	1	6	85.7%
Gender pay gap	0	0	N/A	1	5	83.3%	0	0	N/A	1	5	83.3%
GHG emissions	0	0	N/A	2	11	84.6%	2	0	0.0%	4	11	73.3%
Link executive pay to social criteria	0	0	N/A	4	7	63.6%	0	0	N/A	4	7	63.6%
Report on climate change or sustainability	2	0	0.0%	4	5	55.6%	0	0	N/A	6	5	45.5%
Approve remuneration report or policy	150	10	6.3%	893	141	13.6%	493	115	18.9%	1,536	266	14.8%
Elect director	2,548	364	12.5%	8,005	652	7.5%	4,962	497	9.1%	15,515	1,513	8.9%
Approve remuneration of directors	0	0	N/A	2	0	0.0%	609	56	8.4%	611	56	8.4%
Ratify or approve auditors and their remuneration	319	25	7.3%	1,097	36	3.2%	679	12	1.7%	2,095	73	3.4%

Voting on shareholder proposals



Votes "FOR" by shareholder proposal category



[9] 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.

[10] 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 or logistical restrictions where voting would not be in clients' best interests.

[11] Note that the statistics for the 'Adopt or Amend Proxy Access Right' Item Category do not include six proposals for proxy access put forward by management. In these cases, we voted WITH management on all six proposals.

[12] Note that the statistics for the 'Report on Climate Change or Sustainability' Item Category include one proposal where management supported the shareholder proposal. In this case, we voted WITH management and, therefore, FOR the proposal.

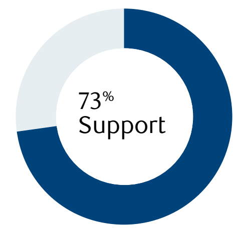
Voting on climate change proposals

In our *2018 CGRI Semi-Annual Report*, we discussed our approach to voting on climate-related shareholder proposals and our observations during the 2018 proxy season. We review all shareholder proposals on a case-by-case basis, but we are more likely to support proposals that request enhanced disclosure in an area that represents a material risk or opportunity for the company. Conversely, we will generally oppose proposals that are unduly prescriptive and/or mandate a specific course of action for the company.

With this in mind, it is useful to isolate our voting record on particular climate-related proposals. These proposals would generally be grouped in the "Health & environment" category from the "Votes FOR by shareholder proposal category" chart.

Adopting and/or reporting on greenhouse gas (GHG) emission reduction targets

We were largely supportive of proposals requesting that companies either establish GHG emission reduction targets or report on the feasibility of doing so. Although adopting GHG emission targets goes beyond simply reporting on an issue, in the cases we reviewed, climate change was a material risk and the companies' practices lagged behind their peers. Generally, we opposed proposals that were too prescriptive, where the company's existing disclosure was adequate for investors, or after direct engagement with the companies and/or proponents provided clarifying information on progress, plans, or commitments.

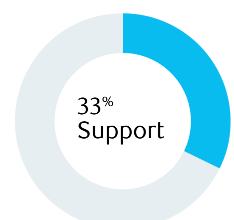


Publishing two-degree scenario analysis[13]

Going beyond requesting disclosure on GHG emissions in general, a small number of proposals in 2018 targeted oil and gas companies, requesting enhanced disclosure on the impacts of a two-degree scenario on the companies' portfolios. In each case, we determined that enhanced disclosure on this material issue would be beneficial for investors.

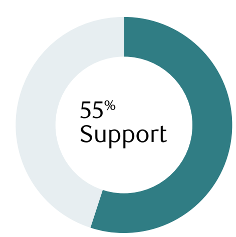
Renewable energy strategies

In most cases, the shareholder proposals falling under this category were overly prescriptive, requesting that the company amend its articles to phase out non-renewable fuel sources from its portfolio, or to change its business strategy to focus on renewables. Although we are supportive of energy companies looking toward renewable energy sources in order to combat climate change, the amendment of company articles, in our view, is not a feasible way to foster this change. We were supportive, however, of a limited number of proposals focused on reporting on the feasibility of setting renewable energy goals.



Reporting on climate change or sustainability

We will support most proposals requesting enhanced disclosure on material ESG issues. We encountered a small number of proposals with overly prescriptive language, but were generally supportive of proposals requesting enhanced disclosure on climate change or sustainability. Accordingly, it was encouraging to see several companies at which these proposals were filed already disclosing adequate reporting.



[13] According to the TCFD, "A 2°C scenario lays out a pathway and an emissions trajectory consistent with limiting the average global temperature increase to a temperature range around 2°C above pre-industrial levels with a certain probability." Proposals requesting an analysis of this scenario, and other plausible scenarios, seek to provide investors with clarity on companies' strategic plans and thinking surrounding potential future outcomes, as companies' preparedness and decisions for the future can impact investors' decisions today.Task Force on Climate-Related Financial Disclosures. Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities.

Updating our guidelines

The rapid progression of corporate governance and responsible investment principles across markets over the past several years has caught the attention of investors worldwide. However, much work remains to be done, and with industry developments taking place so quickly, we remain more committed than ever to staying ahead of emerging trends, opportunities, and investor concerns in responsible investment.

The annual update to the RBC GAM Proxy Voting Guidelines (Guidelines) plays a vital role in the evolution of our approach to responsible investment. By continuously monitoring this changing landscape, engaging with our investee companies, policymakers and like-minded investors, and through collaboration with our investment teams, we ensure that our Guidelines communicate our views on both leading and lagging practices in terms of corporate governance and ESG.

Our CGRI 2018 Semi-Annual Report contains details of the updates to our Guidelines in 2018. The following is a summary of those updates, along with some additional context in notable areas.

Climate change

As investors increasingly focus on the risks and opportunities associated with climate change, we have seen a marked increase in the number of climate-related shareholder proposals filed at our investee companies. We evaluate all shareholder proposals on a case-by-case basis, with a focus on the requested actions. We have seen a noticeable response from investee companies as they seek to provide investors with tangible and material details on their climate-related policies and strategies.

In fulfillment of our commitments on climate change outlined in our *Approach to Responsible Investment*, we enhanced our Guidelines on climate change to provide additional context on how we will generally vote on climate-related shareholder proposals. In addition, we also encourage companies to consider the recommendations of the TCFD, as enhanced, standard disclosure of climate-related risks and opportunities will facilitate our investment decisions.

We expect this issue to continue to gain prominence moving forward, and we will continue to apply our nuanced and thorough analysis to climate-related proposals in 2019.

Board diversity

We updated our Guidelines to state that we expect that companies with no female directors on their board to have diversity policies in place that both commit to increasing board gender diversity and set targets to do so over a reasonable period of time. This update led to several informative engagements throughout the year, and provided us with further insights into how many of our investee companies are considering gender diversity.

Moving into 2019, we envision further enhancing our Guidelines as we contribute to the objectives of the 30% Club and the Canadian 30% Club Investor Group. Overall, progress on this issue has been relatively slow worldwide, despite encouraging signs in some markets. By enhancing our Guidelines, we aim to ensure that companies focus on the merits of board diversity.

Lobbying

The prominence of lobbying activities by companies varies by jurisdiction, but most industries are still exposed to its associated risks. We do not dispute that lobbying plays a key role in the ongoing strategies of many companies in certain sectors, and we do not require that our investee companies cease lobbying activities altogether. Instead, as engaged investors, we want to ensure that our investee companies' lobbying activities are aligned with the publicly stated business strategy that our investment teams support.

Accordingly, we updated our Guidelines to communicate the various factors we consider when evaluating shareholder proposals on lobbying. Throughout the year, we did encounter several instances where we determined that existing disclosure was adequate for investors to make a well-informed decision. However, in the majority of cases, we agreed with the proponent's assessment that lobbying disclosure could be enhanced. Our expectation is that this issue will continue to be prevalent throughout 2019.

Overboarding

Given their expertise, CEOs are often sought after for director positions outside their company board. Considering the time commitments involved in both of these roles, we pay close attention to whether or not directors could be considered 'overboarded' – a term used for directors who sit on an excessive number of boards such that they may not be able to commit sufficient time and effort to effectively discharge their responsibilities as such.

In 2018, the grace period expired on a voting guideline we disclosed in 2016 limiting CEOs to a total of two directorships (one on their own board, plus one on another). During that grace period, we kept track of directors we considered overboarded, engaged with numerous boards, and logged instances where we determined that exceptions were warranted. According to the 2018 Spencer Stuart Board Index, the percentage of CEOs of S&P 500 Index companies serving on one or more outside boards increased from 37% in 2017 to 45% in 2018 (based on proxy seasons running from May 2016 until May 2017, and May 2017 until May 2018)[14]. This figure includes instances of CEOs sitting on a single outside board, which is permitted under our Guidelines, but the issue will likely remain a topic of interest in 2019.

[14] 2018 United States Spencer Stuart Board Index. S&P 500 Boards: Trends Over One, Five and 10 Years. SpencerStuart.

Focus on: ESG integration in investment grade corporate credit

Our fiduciary responsibility as active managers is to maximize investment returns for our clients without undue risk of loss, and we believe that by serving as an active, engaged, and responsible asset manager, we are better able to enhance the long-term, sustainable performance of our clients' portfolios. Consistent with this mandate, the PH&N Investment Grade Corporate Credit team incorporates ESG factors directly into its rigorous and disciplined approach to comprehensive corporate credit research.

Rather than applying a top-down ESG investment screen, the team assesses the risks and opportunities associated with issuers' ESG practices throughout the due diligence process. With the goal of understanding the impact of such practices on a company's overall sustainability and credit quality, the team employs a wide range of resources to expand its insight on pertinent ESG information.

As fixed income investors, the team's approach to ESG integration is focused on elements different from what one might expect from equity investors. For instance, given their inability to regularly vote on company-related matters, the team relies more heavily on discussions and engagement with management to gain insight.

Although the team has found that the impact of ESG practices on an issuer's credit standing can vary, governance factors tend to carry significant implications for bondholders. Specifically, management that exhibits poor communication and transparency can challenge the ability of investors to interpret the intent behind policies governing the balance sheet, cash flow management, and corporate structure, which in turn can reflect on an issuer's ability to maintain credit quality. Conversely, companies with strong governance may stand to benefit from a range of potential competitive advantages, including capital cost efficiencies, productivity gains, and new business opportunities.

Overall, the team emphasizes that ESG factors should not be considered on a standalone basis. Further, rather than focusing on all business practices related to ESG, the team generally only considers those that would pose a material risk to credit quality.

ESG in the investment process

The team's credit analysis process involves research, team discussions, continuous monitoring and engagement where appropriate.

The process begins with examining a company's operating environment and gathering high-level information pertinent to its business model, such as industry characteristics, historical trends, competitive nature, and regulatory landscape. Relevant ESG issues are an important component of this research, as the goal is to identify key risks and challenges that could result in material credit implications for the company and the sector in which it operates.

The team then conducts an in-depth analysis of the issuer by investigating its fundamental profile. They evaluate ESG issues throughout the course of this work and within the context of other risk factors. Typically, emphasis is placed on how ESG factors may impact the company's operating performance and future cash flows. This process is complemented by third-party research and tools, while engagement with management plays a key role in informing the team's understanding.

To conclude this step, all of the research is compiled in a research report and because ESG issues can affect different aspects of the business on multiple levels, they are not isolated from their natural fit in the report. Again, only ESG factors deemed to be material to an issuer's debt-servicing capabilities influence the final internal credit rating and investment decision.

The team then moves on to meet, discuss, and debate the recommended credit rating. Based on extensive discussion of research findings and an open exchange of ideas, they arrive at an internal credit rating as a group.

Lastly, the investment decision cannot be made on the basis of fundamentals alone and requires the consideration of valuations and technical analysis. A security's relative value versus other investment options must also be considered. Ultimately, the team uses a combination all of the information from its comprehensive research and analysis, to reach a final investment decision.

The team meets with senior management on a regular basis to enhance the breadth and depth of its research on the company and its ESG practices. As fixed income investors, numerous opportunities arise for engagement, as bond market issuers require the support of key lenders to refinance existing debt or raise new funding, and bondholder approval is required for the modification of any covenants. To that end, the team leverages these opportunities and the size and influence of RBC GAM to engage with issuers and encourage stronger ESG practices that will create value for our clients.

Once the investment decision has been made, whether it be a buy, sell, or hold, issuers are monitored on an ongoing basis and any evolving risk factors are continuously assessed by the team. Over time, the team may revisit its internal credit rating and/or investment decision, which could result in a different conclusion.

RBC Global Asset Management

For more information on RBC GAM's approach to corporate governance and responsible investing, visit **rbcgam.com/cgri**.

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