

# Stewardship in action

## 2020 Corporate Governance and Responsible Investment Annual Report

### What's inside:



Global Adoption – Regional Divide: Results from our fifth annual Responsible Investment survey



Proxy Voting: Voting statistics and highlights



Direct engagements: Employee health and safety, climate change, diversity, and more



Q&A with our investment teams:  
Pandemic impact on ESG





## CIO message

We are pleased to share with you our 2020 Annual Report, which highlights our recent activities, progress, and achievements regarding our commitment to responsible investment. Amidst a tumultuous year, in which investors endured elevated levels of volatility, accentuated by the fastest bear market in history and a subsequent rebound across risk assets, RBC Global Asset Management (RBC GAM) continued to advance our responsible investment strategy and provide resilient portfolios for the long term.

The pandemic and its impacts on governments, companies and individuals have been massive and sustained over a long period with still no certainty of an end date or state. Among investors of all types, understanding of environmental, social and governance (ESG) investing and commitment to it appear to have grown as a result of the challenge. At RBC GAM, we remain committed to engaging companies and policy makers and to always improving our data, strategies and approach to responsible investing.

Notable responsible investment highlights in 2020 included the release of Our Approach to Climate Change, which highlights our firm's strategy for addressing the potential impacts of climate change on our investments. In addition, we became a signatory to the Responsible Investment Association's (RIA) Canadian Investor Statement on Diversity and Inclusion.

We are pleased that our efforts to continuously improve our ESG integration and active stewardship activities continue to be recognized, as we again received the highest grades possible for our annual United Nations Principles for Responsible Investment (PRI) Transparency Report in 2020. The PRI evaluates signatories' approaches to the Principles, and each of our modules received a score of A+ in 2020.\*

As the impacts of COVID-19 continue to unfold and governments and companies continue to manage their responses, we will continue to integrate ESG-related information into our investment decisions, engage with companies and policymakers alike on material ESG issues, and improve our responsible investment strategies, data, and approaches for the long term.

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

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\* As part of the paid annual membership services, the PRI evaluates signatories' approaches to the Principles based on its assessment methodology. Once the responses are assessed, all indicator scores are aggregated and assigned a performance band (from A+ down to E). Our full transparency report as one of over 2,000 signatories can be found here: RBC GAM PRI Transparency Report. Please refer to Page 4 of this report for a comparison of our module scores against peers.



# 2020 highlights

RBC GAM's approach to responsible investment is organized into three core pillars: fully integrated ESG, active stewardship, and client-driven solutions and reporting. We introduced enhancements in each of these areas in 2020, some of which are highlighted on the following pages.



## Fully integrated ESG

All investment teams integrate relevant ESG factors into their investment processes.



## Active stewardship

We convey our views through thoughtful proxy voting, engagement with issuers and regulatory bodies, and collaboration with other like-minded investors.



## Client-driven solutions and reporting

We align our solutions with client demand and provide transparent and meaningful reporting.



## Fully integrated ESG

All investment teams integrate relevant ESG factors into their investment process.



### Advancing our climate-related data and tools

Following the launch of [Our Approach to Climate Change](#) in 2020, one of our priorities was to continue to advance the data, tools, and knowledge on climate-related risks and opportunities across the investment platform. We made significant progress on this goal by:

- Onboarding a new climate dataset into our internal ESG database, available for direct integration into investment teams' own due diligence and portfolio monitoring processes
- Comprehensive climate risk and opportunity monitoring at the portfolio level through quarterly climate scenario analysis
- Climate education sessions with external climate experts sharing their knowledge and perspectives with RBC GAM investment professionals

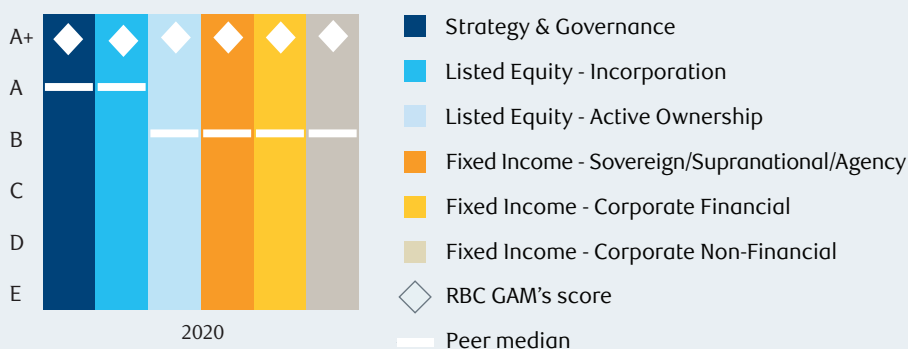


### Deepening expertise on material ESG topics

As part of our continued efforts to expand internal subject matter expertise on material ESG topics, in 2020, we rolled out extensive research and investor guides on topics like human rights, Indigenous rights, climate change, cybersecurity and data privacy. We also continued our ESG Champion call series, in which our global investment teams share perspectives and discuss various ESG topics or trends affecting their investments. Topics in 2020 included ESG integration in the time of COVID-19, climate data integration, ESG & technology, and investor perspectives on human rights, among others.

### Leaders in responsible investment

Continuous improvement and innovation is core to how we do business. Every year, as a signatory to the PRI, we file our PRI Transparency Report. The PRI assesses all signatories' approaches to the Principles, and in 2020 we were gratified to receive the highest grades possible, with each module receiving a score of A+.<sup>1</sup>



<sup>1</sup> As part of the paid annual membership services, the PRI evaluates signatories' approaches to the Principles based on its [assessment methodology](#). Once the responses are assessed, all indicator scores are aggregated and assigned a performance band (from A+ down to E). Our full transparency report as one of over 2,000 signatories can be found here: [RBC GAM PRI Transparency Report](#).



## Active stewardship

We convey our views through thoughtful proxy voting, engagement with issuers and regulatory bodies, and collaboration with other like-minded investors.



### Policy engagements

We shared our views on several proposals with regulators and other policymakers in 2020. For example, in Canada, we submitted comments on the Canadian Investment Funds Standards Committee's (CIFSC) proposed framework to label Canadian investment funds that practice responsible investment. We also collaborated with other Canadian investors as part of the Ontario Capital Markets Modernization Taskforce, which included feedback on recommendations related to ESG disclosures and ESG investing, and as part of a session with the Responsible Business Practices Division at Global Affairs Canada, which explored solutions and measures that could help position Canadian companies as global leaders in responsible and sustainable business conduct.

In the U.S., we submitted comments to the U.S. Department of Labor on two of its notices of proposed rulemaking entitled "[Financial Factors in Selecting Plan Investments](#)" and "[Fiduciary Duties Regarding Proxy Voting and Shareholder Rights](#)", specifically on the proposals' references to ESG integration, proxy voting, and shareholder rights.

Finally, RBC GAM provided feedback on the CFA Institute's consultation paper on the development of [ESG Disclosure Standards for Investment Products](#). The initiative seeks to provide transparency and comparability for the ESG-related features of investment products.

We are committed to conveying our views on material policies that could have an impact on our clients' assets.



### Action on diversity & inclusion

Diversity & inclusion is a material ESG issue that we address through our Proxy Voting Guidelines, as well as our engagement activities. In 2020, we updated our Proxy Voting Guidelines such that if a board had less than 25% women directors and lacked an adequate gender diversity policy, we may vote against members of the Nominating or Corporate Governance Committees. We also became a signatory to the RIA's 2020 [Canadian Investor Statement on Diversity & Inclusion](#), which outlines signatories' expectations for Canadian companies and investor goals related to promoting a diverse and inclusive corporate landscape.



### Collaborative engagement on climate change

As part of Our Approach to Climate Change, in April 2020, RBC GAM became a signatory to Climate Action 100+, an investor collaboration focused on active engagement with the world's largest publicly traded and systemically important carbon emitters, or companies with significant opportunity to drive the transition to a low-carbon economy. Since then, we have joined four collaborative engagements organized by the initiative, encouraging large greenhouse gas (GHG) emitters to improve their climate-related disclosures and set appropriate GHG reduction targets. In addition, as part of signing up to Climate Action 100+, BlueBay Asset Management (BlueBay) co-led an engagement with an energy issuer in 2020.



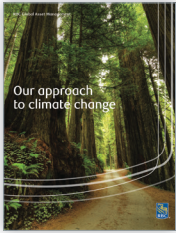
## Client-driven solutions & reporting

We align our solutions with client demand and provide transparent and meaningful reporting



### Our responsible investment strategies and approaches

In our continued efforts to provide transparent and meaningful reporting to clients, in 2020 we released the updated Our Approach to Responsible Investment and launched Our Approach to Climate Change. [Our Approach to Responsible Investment](#) provides an overview of the three main pillars of our responsible investment strategy, the specific activities we conduct under each one, and the overarching governance structure of responsible investment at RBC GAM, while [Our Approach to Climate Change](#) outlines our strategy for addressing climate-related risks and opportunities.



### Continuous improvements in institutional reporting

In 2020, in line with our commitment to provide timely and meaningful reporting to clients, we launched additional quarterly reporting for our North American institutional clients, which includes commentary on material themes and updates, as well as a selection of ESG engagements undertaken by our investment teams throughout the quarter. We also continued to enhance our ESG reporting for institutional clients invested in portfolios managed by our Global Equity and Emerging Markets Equity teams.

### Proxy vote rationale disclosure

In 2020, we started publicly disclosing the rationales for proxy votes on notable shareholder proposals and on proposals where we voted against management recommendations. The rationales have been posted on our Canadian [proxy voting records webpage](#) for meetings after July 1, 2020. Voting records are posted quarterly, and we are currently exploring expanding rationale disclosures on the websites for other jurisdictions.

### ESG thought leadership

We publish topical ESG-related information for our clients to provide them with insights on material ESG issues. In 2020, we published thought pieces on a range of topics, including several on ESG issues in the time of COVID-19, the importance of gender diversity on boards, the impacts of virtual-only meetings on shareholder rights, and insights into the proxy voting season. We encourage you to visit our [website](#) for our full list of publications.

### RBC GAM Japan's Stewardship Code Statement

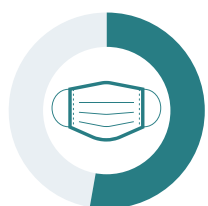
In 2020, we published our statement of support for the updated Japanese Stewardship Code. The Code, which was revised and updated in 2020, sets out the principles that institutional investors should adhere to in order to fulfill their stewardship responsibilities to clients, beneficiaries and investee companies. Moreover, the revised Code takes into account recent trends in capital markets, such as sustainability issues and ESG factors. RBC GAM's [statement of support](#) is available on our website and was submitted to the Financial Services Agency in Japan.



# Annual survey

In 2020, we published our fifth annual survey, [Responsible Investment: Global Adoption – Regional Divide](#). The survey included over 800 participants from around the world, including the U.S., Canada, Europe and Asia. Respondents were from all areas of the investment industry, including pension plan sponsors, investment managers, consultants, endowments, foundations, and government organizations. The survey's results were insightful, revealing some data points that confirmed our preconceived notions and others that ran contrary to our initial perceptions. We encourage you to review the full survey, but some of the broader global highlights include:

## The COVID-19 pandemic has influenced investors' ESG attitudes and priorities:



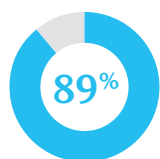
**53%** of respondents agreed that COVID-19 has made them think that companies should disclose more details about **worker safety, employee health benefits, workplace culture and other social factors**.

## Global ESG adoption continues to climb but differs by region as Europe leads, U.S. lags:

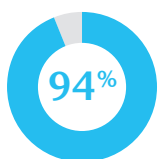


**75%** of respondents globally integrate ESG principles into their investment approach and decision-making, **up from 70% in 2019**.

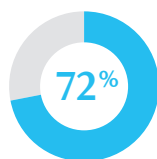
## Investors in the U.S. continue to lag behind their global counterparts in ESG adoption:



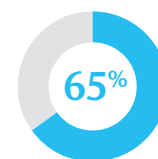
Canada



Europe



Asia



United States

## Top five ESG concerns globally

1

### Anti-corruption

Anti-corruption moved up to the top spot from second highest in 2019.

4

### Cyber security

Cyber security, the top-ranked concern in 2019, dropped to fourth in 2020.

2

### Climate change

Climate change, which ranked fourth in 2019, climbed to the second spot in 2020.

5

### Health & safety

In spite of the global pandemic, the position of health & safety remained in fifth place, just as in 2019's list.

3

### Shareholder rights/voting

The biggest mover up the list of ESG issues was shareholder rights/voting, which climbed to a tie for second place from eighth in 2019.

## Investors have impact investing in their sights



**31%**

of the institutional investors surveyed

said that their organization's portfolios include impact products, **40% said they plan to allocate money to impact products in the next 1-5 years**, an increase from the 28% who said so in 2019.



# Proxy voting

Proxy voting is a key part of our engagement process as it provides an important way for us to convey our views to boards and management. As an asset manager, RBC GAM has an obligation to act in the best interests of our clients. Voting responsibly is part of our fiduciary duty, and it is our policy to exercise the voting rights of the funds we manage in the best interests of our clients. We vote all of our shares independently and in accordance with our custom Proxy Voting Guidelines (Guidelines).

## RBC GAM Proxy Voting Guidelines updates for 2020

Our Guidelines are updated annually to reflect our views on emerging trends in corporate governance and responsible investment. Here is a summary of the key updates for 2020:

- **Indigenous rights:** RBC GAM recognizes that Indigenous peoples have distinct rights that must be addressed separately from those of other community groups. In 2020, we updated our Guidelines to specifically address the rights of Indigenous peoples, such as those set out in the United Nations Declaration on the Rights of Indigenous Peoples (UN DRIP).
- **Board gender diversity:** In line with the intentions of the Canadian 30% Club Investor Group, to which RBC GAM is a signatory, we updated our Guidelines in 2020 so that if a board had less than 25% women directors and lacked an adequate gender diversity policy, we may vote against members of the Nominating or Corporate Governance committees.
- **Shareholder rights:** In our view, improving policies or adopting new avenues for shareholders to have their concerns heard between shareholder meetings improves shareholder rights. For 2020, we updated our Guidelines to state that we will generally oppose attempts to limit and/or eliminate shareholders' rights to call a special meeting or act by written consent and will generally support resolutions that seek to restore or improve those rights. Adding "or improve" to the guideline clarifies that we will support proposals even in cases where the company is meeting best practices if, on balance, the proposal's adoption would improve shareholder rights.

For additional details on our 2020 updates to our Guidelines and key insights from the 2020 proxy voting season, please refer to our [2020 Corporate Governance and Responsible Investment Semi-Annual report](#).

## Recent updates to our voting disclosure

Transparency and accountability are key to maintaining meaningful relationships with our clients and delivering on our fiduciary duty. We publish the records of our votes on ballot items for investments held in our funds on a public searchable database, in accordance with applicable regulations. New for 2020, RBC GAM has started publicly disclosing the rationales for proxy votes on notable shareholder proposals and on votes against management recommendations on its Canadian proxy voting records website. RBC GAM is currently exploring expanding disclosures on the websites for other jurisdictions. The rationales have been posted for meetings after July 1, 2020. Voting records are posted quarterly.



## 2020 calendar year - Proxy voting statistics<sup>2, 3</sup>

The table below summarizes how we have voted across key markets in 2020.

|                               | Canada | U.S.   | Overseas | Total  |
|-------------------------------|--------|--------|----------|--------|
| Proposals                     | 3,326  | 11,127 | 17,025   | 31,478 |
| Votes WITH management         | 2,854  | 8,862  | 15,515   | 27,231 |
| Votes AGAINST management      | 472    | 2,265  | 1,510    | 4,247  |
| % of votes AGAINST management | 14.2%  | 20.4%  | 8.9%     | 13.5%  |

## Overview of our voting record by issue

Below is a snapshot of our voting record on a set of important and frequent management and shareholder proposals. Management typically recommends voting against shareholder proposals. As a result, a vote against management on a shareholder proposal usually equates to a vote in favour of the proposal.

|  | 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 |
| Management proposals   |           |              |                |           |              |                |           |              |                |           |              |                |
| Amend or approve Omnibus Stock Plan  | 0         | 17           | 100.0%         | 2         | 238          | 99.2%          | 7         | 14           | 66.7%          | 9         | 269          | 96.8%          |
| Elect director   | 2,153     | 348          | 13.9%          | 6,484     | 1,563        | 19.4%          | 4,333     | 395          | 8.4%           | 12,970    | 2,306        | 15.1%          |
| Approve remuneration of executives   | 169       | 5            | 2.9%           | 899       | 119          | 11.7%          | 639       | 129          | 16.8%          | 1,707     | 253          | 12.9%          |
| Approve remuneration of directors  | 0         | 0            | 0.0%           | 0         | 1            | 100.0%         | 654       | 42           | 6.0%           | 654       | 43           | 6.2%           |
| Ratify or approve auditors and their remuneration                                  | 280       | 5            | 1.8%           | 1,054     | 4            | 0.4%           | 654       | 9            | 1.4%           | 1,988     | 18           | 0.9%           |
| Shareholder proposals  |           |              |                |           |              |                |           |              |                |           |              |                |
| Require independent board chairman   | 0         | 0            | 0.0%           | 0         | 41           | 100.0%         | 0         | 1            | 100.0%         | 0         | 42           | 100.0%         |
| Report on equal employment opportunity   | 0         | 0            | 0.0%           | 0         | 7            | 100.0%         | 0         | 0            | 0.0%           | 0         | 7            | 100.0%         |
| Gender pay gap   | 0         | 0            | 0.0%           | 0         | 13           | 100.0%         | 0         | 0            | 0.0%           | 0         | 13           | 100.0%         |
| Political contributions and/or lobbying disclosure                                 | 0         | 0            | 0.0%           | 3         | 45           | 93.8%          | 0         | 1            | 100.0%         | 3         | 46           | 93.9%          |
| Provide right to act by written consent or amend articles to call special meetings | 0         | 0            | 0.0%           | 5         | 69           | 93.2%          | 0         | 0            | 0.0%           | 5         | 69           | 93.2%          |
| Link executive pay to social criteria  | 1         | 1            | 50.0%          | 1         | 5            | 83.3%          | 0         | 0            | 0.0%           | 2         | 6            | 75.0%          |
| Report on climate change or environmental/sustainable policies                     | 1         | 2            | 66.7%          | 3         | 6            | 66.7%          | 6         | 1            | 14.3%          | 10        | 9            | 47.4%          |
| Human rights risk assessment or improve human rights standards                     | 3         | 0            | 0.0%           | 4         | 6            | 60.0%          | 0         | 0            | 0.0%           | 7         | 6            | 46.2%          |
| Green house gas (GHG) emissions  | 0         | 0            | 0.0%           | 0         | 1            | 100.0%         | 4         | 0            | 0.0%           | 4         | 1            | 20.0%          |

<sup>2</sup> The proxy voting statistics include voting for all of RBC GAM with the exception of funds managed by BlueBay Asset Management LLP, externally managed sub-advised funds and specific institutional accounts.

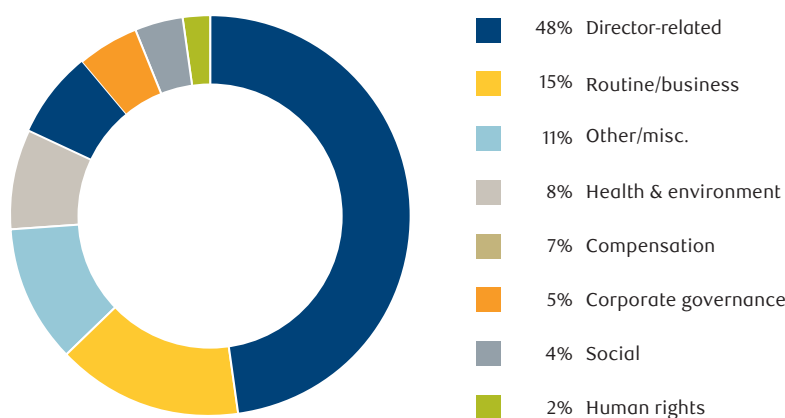
<sup>3</sup> Voting statistics account for proxy votes submitted by RBC GAM and may include instances where RBC GAM's proxy votes were rejected at the time of meeting, which may occur due to proxy voting administration issues in foreign markets. Voting statistics exclude instances where RBC GAM intentionally did not vote due to shareblocking restrictions or other logistical impediments.



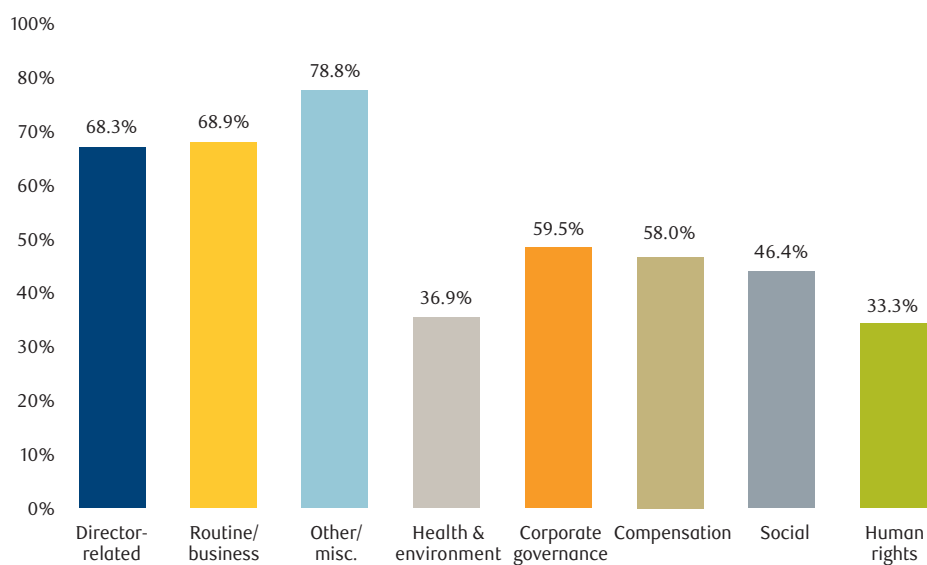
## Shareholder proposals

Shareholder proposals represent a small number of the overall ballot items but are an important mechanism for shareholders to request an investee company take action on material and trending issues. For context, we voted on 776 shareholder proposals out of 31,478 management and shareholder proposals in 2020. The following charts provide an overview of the types of shareholder proposals we have reviewed and supported this proxy voting season.

### Shareholder proposals by category



### Votes “FOR” by shareholder proposal category



# Engagement and collaborative initiatives

At RBC GAM, we believe that engagement through private dialogue and collaborative initiatives is important in understanding how a company is addressing its ESG risks and opportunities and also allows us to convey our own views.





In 2020, engagement was of utmost importance as companies around the world grappled with the global pandemic and the impacts on their workforces, supply chains, and business operations. In addition, as investors, we continue to seek progress on corporate diversity and inclusion policies, particularly at senior management and board levels. Finally, we recognize climate change will impact all sectors and have continued to request comprehensive disclosure on how companies are managing and mitigating their climate-related risks.

## Direct engagements

Our investment teams meet on an ongoing basis with the companies in which we are invested, and we encourage an in-depth dialogue over time. In 2020, our investment teams completed over 1,200 engagements on ESG issues.<sup>4</sup> Below are some of the ESG-related engagements that our investment teams completed over this past year.

### Employee health & safety

As the COVID-19 pandemic has shown, robust health and safety policies and strong corporate culture can have material implications for the resilience of a business. A proactive approach to these policies can improve employee morale and productivity, enhance customer loyalty, and reduce the potential for reputational damage, legal costs, and operational costs, resulting in stronger financial performance.

- Our RBC European Equity team spoke with a leading international sales, marketing, and support services group to discuss COVID-19 impacts to their business. The company believes that its most valuable resource is its people and therefore made protecting staff its number one priority. All of its office employees were working from home and the company was making plans to have social distancing protocols in place when staff do return to the office, while also looking to be more flexible with longer-term work-from-home arrangements. In addition, one of its business lines provided frontline workers across the entire organization and members of the communities in which it operates with protective equipment; in particular, all of its drivers were given proper safety equipment and training to safely engage with customers. Although the company noted some

inefficiencies in its manufacturing lines, it believed employee safety was paramount. The investment team was pleased with the measures the company had taken in response to COVID-19 and believes the resilience the company is exhibiting through the crisis will result in long-term benefits.

- Our RBC U.S. Equities Core & Value team met with an automobile accessory provider to discuss a number of important topics, one being the health and safety of their employees during the pandemic. The company is exercising their best efforts to follow guidelines provided by global and U.S. national health authorities for employee safety and is clearly communicating those efforts on a regular basis with employees. Further, it has updated its working conditions to enhance cleaning and disinfecting practices within all working environments, adhere to social distancing guidelines, restrict business travel to minimize risk of exposure, procure and provide personal protective equipment to all employees, and restrict building access to only essential employees while instituting remote work arrangements for all other employees. The team already thought highly of management and the overall business structure and was pleased with management's response to employee health and safety during the pandemic.



<sup>4</sup> The reported figures may not fully capture all ESG engagements as some may not be included in our tracking systems. Engagements purely on non-ESG factors are excluded.

## Climate change

We recognize that climate change is one of the most pressing issues of our time and affects almost all sectors and industries. As such, our investment teams engage regularly with investee companies to discuss material climate-related risks and opportunities.

- Our RBC North American Equity team engaged with a U.S. industrial conglomerate to discuss its climate change strategy. The company discussed its overall business strategy and answered questions about its exposure to fossil fuels in its various lines of business. The company also provided details on potential new business opportunities that would provide sustainable solutions for the company and the industry. For example, the company has significant carbon emissions in its aerospace business line and is looking to develop a green fuel that could potentially reduce emissions by 65%. The team was encouraged by this discussion as this opportunity could increase growth and provide optionality to the company.
- Our RBC Global Fixed Income team met with a large public transport company to discuss the company's new green bond framework and the use of proceeds from a new issuance. Management provided insight into the company's plans to become carbon neutral for rail services and bus fleets by 2030 and 2037 respectively. In addition, management detailed other initiatives to reduce the company's carbon footprint, such as expanding cycling networks. From this discussion, the investment team was able to form a better view of the impact of the company's business on the environment, the quality of its management, and its overall credit profile.
- Our RBC U.S. Fixed Income team engaged with a large U.S. insurance company to discuss how the company is working to improve underwriting in the face of increasing severity and frequency of climate-related weather events. Management provided details about their granular internal models to help project weather-related events across the U.S. Using these models, the company has improved its insurance pricing by determining what businesses and geographical areas are still viable, while at the same time using reinsurance to limit the company's direct exposure to severe weather-related risks. The investment team used the information from the engagement to help formulate a credit opinion on the company.



## Diversity

To enhance overall board effectiveness, we expect board members to have a diverse range of backgrounds and experience. To the extent practicable, directors should reflect the characteristics of the communities in which the corporation operates and sells its goods or services. Our investment teams often engage with companies to promote board diversity.

- Our RBC Emerging Markets Equity team engaged with a South African health and beauty retailer on diversity. The team noticed that the company scored very high on its internal assessment of diversity; the company has a strong board race and gender diversity policy, and is exceeding its voluntary targets of 25% women and 25% ethnic minority directors, with 44% women and 56% ethnic minority directors. The team engaged with the company to understand the reasons for its success and were very pleased to find that management truly believes that diversity is better for business, which leads to diversity in thought and a more engaged workforce. The team was satisfied with the governance structure of the company and looks forward to continuing to monitor the company's work in this area.





## Improving disclosure

Transparency on material issues allows our investment teams to assess issuers' strategies, risks, and values. Proper disclosure by the companies in which we invest demonstrates that these issuers are accountable in managing their material ESG risks and opportunities. Our investment teams frequently seek engagements or are asked to engage in order to provide feedback on a company's ESG disclosures.

- Our PH&N Canadian Fixed Income team reached out to a large mining and energy company in order to better understand the company's ESG practices. After having reviewed the company's public disclosures, the team felt they needed additional details on the company's environmental and social impacts and asked the company the following:
  - What are the emissions impacts of uranium mining and processing at the company? Does the intensity vary across the company's mines?
  - How does the company store fuel and nuclear waste?
  - How does the company work with local communities that oppose nuclear energy?
  - When dealing with state-owned utilities and other customers in emerging markets, how does the company ensure all parties involved are acting ethically?

The team also asked for enhanced public disclosure regarding the topics discussed in the meeting. For example, the company has internal carbon reduction targets, but does not make these details public. Management indicated that they are working on improving their ESG disclosures. The team will continue to monitor the company's progress and provide feedback.

- Our PH&N Canadian Equity team was asked by a Canadian chemical company to provide feedback on its ESG reporting. The team reviewed the company's 2020 ESG report and concluded that there were some material concerns, which they identified for the company. For example:
  - The company operates a number of independent business segments but aggregates its ESG reporting disclosures, such as GHG emissions and water usage metrics. This aggregation makes it difficult to accurately compare the company to its peers that operate in only one business segment. The team recommended that the company provide segmented data to allow for a better comparison of ESG factors against the company's peers.

- The team requested more disclosure on the amount of water usage in its operations, especially since the company operates in an area of high water stress. Furthermore, the team felt that the company should reassess its water risk level. Freshwater scarcity issues are on the rise globally, and the company's business consumes a significant amount of water.

The team was pleased to provide feedback on the ESG report and will continue to monitor the company's disclosure on these material ESG factors.

- Our BlueBay Asset Management Global Investment Grade Fixed Income team engaged with a U.S. steel company on its governance and environmental risk management disclosures.
  - In terms of governance, conversations focused on accounting and the need for greater disclosure in management's approach to sustainability in order to better align with leading peers. Management acknowledged that while there is much going on across the company related to ESG, the company needed to improve external reporting.
  - On the topic of environmental risk management, discussions focused on the current lack of disclosure on the company's efforts in reducing carbon emissions and increasing energy efficiency. The company explained that it has invested in these initiatives, including allocating environmental maintenance capital expenditure to achieve its objectives. The company acknowledged the importance of disclosing information on these initiatives to investors and committed to improving its reporting in the future.

Overall, the team found the meetings positive, particularly in terms of gaining an increased understanding of the company's ESG efforts. The team also viewed the company's acknowledgement that it needs to improve its disclosure as a positive sign and will monitor progress.

## Indigenous rights

Indigenous Peoples have specific rights, such as those set out in the UN DRIP, which may be material to a company's operations and decision-making.

- Our RBC Asian Equity team met with the management team of a large iron ore producer in Australia to discuss its Indigenous rights policy. The team was concerned about a dispute between the company and one of its Indigenous stakeholders. Management outlined the company's policy on working with Indigenous communities impacted by their operations, which included detailed processes to protect Indigenous heritage in its project planning, impact mitigation and negotiation. Management emphasized its objective of creating social change by investing and creating employment opportunities in the community. The team noted recent controversies at another company within the industry, where the CEO was required to step down following an investigation of that company's neglect in protecting Indigenous heritage. The team concluded that the company has demonstrated strong practices towards Indigenous communities (particularly as compared to industry peers) that positively impacted its outlook and views of management.



## Supply chain management

The quality and effectiveness of a company's supply chain risk management are two factors RBC GAM investment teams consider in their ESG integration. Strong supply chain risk management can help determine the resilience of a company and separate the laggards from the out-performers.

- Our RBC Global Equity team continued ongoing engagement with an industrial company regarding its supply chain. Despite a challenging environment for global supply chains, the business was able to maintain manufacturing operations and distribution due in part to the significant investments made in recent years in technology, logistics infrastructure, and diversifying its global manufacturing sites. These carefully selected investments have provided the business with a highly flexible and responsive network that has allowed it to rapidly respond to shifting demands, and further enhance its customer service offering. Overall, the team was pleased with the company's management of its supply chains during the pandemic and will continue to engage with the company on its progress in the future.





## Collaborative initiatives

We participate in initiatives that will increase transparency, protect investors, and foster fair and efficient capital markets. Highlights of our activities in 2020 are as follows:



### 30% Club Canadian Investor Group

RBC GAM is a signatory to the 30% Club Canadian Investor Group. This is a coalition of Canada's largest institutional investors seeking to achieve a minimum of 30% women on the boards and in senior management roles of S&P/TSX Composite Index companies by 2022.

As a member, we engage with companies to encourage boards that may be lagging on gender diversity at the board and management level. For example, our Corporate Governance & Responsible Investment (CGRI), North American Equity, and PH&N Canadian Equity teams participated in a 30% Club Canadian Investors Group engagement in order to understand how a Canadian entertainment and hospitality company thought about gender diversity on its board of directors and among senior management. The board highlighted the challenges in attracting board members in this particular industry but expressed its belief in diversity of thought and how it can be attained through diversity of gender, ethnicity, experience, or background. It was helpful for the investment teams to understand the board's view on this topic.

As discussed in our 2020 Semi-annual Report, we also updated our Guidelines to convey our continued commitment to increasing gender diversity on the boards of our investee companies. If a board had less than 25% women directors and lacked an adequate gender diversity policy, we may vote against members of the Nominating or Corporate Governance committees. This resulted in numerous engagement opportunities with our investee companies on this topic. We look forward to continuing to contribute to the 30% Club Canadian Investor Group's efforts and reporting on our progress.



### Canadian Coalition for Good Governance (CCGG)

Representing the interests of institutional investors, CCGG promotes good governance practices at 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 was a past Chair. RBC GAM's Vice President and Head of CGRI is a member of CCGG's Public Policy Committee and a member of the CGRI team is on the Environmental & Social Committee. RBC GAM is a participant in CCGG's collective engagement program. In 2020, RBC GAM participated in a meeting with the board of a Toronto Stock Exchange (TSX)-listed company as part of a series of such meetings conducted by CCGG.



### Climate Action 100+

As part of Our Approach to Climate Change, RBC GAM became a signatory to Climate Action 100+. This investor collaboration focuses on active engagement with the world's largest publicly traded and systemically important carbon emitters, or companies with a significant opportunity to drive the transition to a low-carbon economy. RBC GAM is an active member and has collaboratively engaged with four companies through Climate Action 100+. Moreover, as part of signing up to Climate Action 100+, BlueBay co-led an engagement with an energy issuer in 2020.



### PRI Initiatives

RBC GAM recognizes that increasing and maintaining forests plays an important role in regulating the climate and provides critical ecosystems services as well as a home and livelihood for Indigenous communities. However, deforestation rates have increased as a result of agriculture, urbanization, infrastructure, and logging activities. This can potentially create widespread uncertainty about the conditions for investing in countries impacted by this issue.

As a result of the escalating crisis of deforestation and forest fires in Brazil and other countries, in June 2020, a coalition of investors, including BlueBay, signed an open letter to the government of Brazil outlining their concern about escalating deforestation, and sought dialogue with key government authorities. In July 2020 this engagement was formalized as the [Investors Policy Dialogue on Deforestation in Brazil](#) (IPDD) supported by the PRI with BlueBay co-leading and RBC GAM along with 43 institutional investors joining as investor members.<sup>5</sup>

The goal of the IPDD initiative is to coordinate a public policy dialogue with government authorities, industry associations and other relevant stakeholders on halting deforestation, enforcement of regulatory frameworks that ensure the protection of tropical forests and human rights, and provision of better-quality data for monitoring deforestation. The IPDD initiative aims to support the long-term financial sustainability of sovereign investments by promoting sustainable land use and forest management and respect for human rights.

This engagement remains ongoing in terms of its aim to influence better management of deforestation risks in the country. The IPDD has been successful in gaining access to key governmental bodies: holding various discussions with the Central Bank, the Vice-President, and the government council responsible for managing deforestation risks, various representatives from Congress, as well as delegations from other countries. It has received commitments from the various governmental stakeholders to tackle deforestation, and general feedback that the initiative has been critical in raising awareness of deforestation as an investment-relevant risk factor.



### Responsible Investment Association (RIA)

RBC GAM is a sustaining member of the RIA, Canada's industry association for responsible investment. Our Vice President and Head of CGRI sits on the Board of Directors, is Secretary of the Board and Chair of the Governance Policy Committee. As an active member, we support many of RIA's initiatives including its 2020 Canadian Investor Statement on Diversity & Inclusion, to which RBC GAM became a signatory. This statement acknowledges the existence of systemic racism and its impacts on Black and Indigenous communities and People of Colour.

### Regulatory initiatives

In 2020, we also provided comments on a variety of regulatory initiatives relating to corporate governance and shareholder rights. Our submissions included the following:

- Feedback to Ontario's Capital Markets Modernization Taskforce related to ESG disclosures and ESG investing.
- Comments filed with the U.S. Department of Labor on two of its notices of proposed rulemaking: Financial Factors in Selecting Plan Investments and Fiduciary Duties Regarding Proxy Voting and Shareholder Rights.
- Comments on CFA Institute's consultation paper on the development of ESG Disclosure Standards for Investment Products.
- Comments on the CIFSC proposed framework to label Canadian investment funds that practice responsible investment.

<sup>5</sup> The number of institutional investors included as of November 2020



# FOCUS ON: climate change, human rights, diversity & inclusion

As an asset manager with a fiduciary duty to our clients, we consider all material factors that may impact the risk-adjusted returns of our investments.





## Our approach to climate change

Climate change is an ESG factor with broad impact across sectors and we are committed to fully integrating climate-related risks and opportunities into our investment processes.

While climate change has long been considered as part of Our Approach to Responsible Investment, in April 2020 we formalized our commitments and actions with the launch of Our Approach to Climate Change. Our climate change strategy focuses on three foundational pillars:



**Fully integrated ESG:** All investment teams integrate climate-related risks and opportunities into their investment processes.



**Active stewardship:** We convey our views through thoughtful proxy voting, engagement with issuers and regulatory bodies, and collaboration on climate change issues with other like-minded investors.



**Client-driven solutions and reporting:** We align our climate-based solutions with client demand and provide transparent and meaningful reporting on climate-related issues.

In 2020, RBC GAM undertook a number of activities to advance our commitment to integrate climate-related risks and opportunities in our investment processes:

- We continued to calculate the **carbon footprint** of many of our investment portfolios so that we can measure the contribution of GHG emissions from select equity and fixed income portfolios.
- We conducted **climate scenario analysis** and assessed the Climate Value-at-Risk (CVaR) and implied temperature increase for many of our equity and fixed income investment

portfolios. Our forward-looking analysis considered both transition and physical risk drivers under multiple forward-looking climate scenarios, including 1.5°C, 2°C, 3°C and Business-as-Usual (RCP 8.5) scenarios.

- We assessed **transition risks and opportunities** at both a company and portfolio level. This includes consideration of product, operational, and asset stranding risks, potential revenue generation from low-carbon technologies, climate-related emissions targets, and executive oversight of environmental strategy, low-carbon risk management, and disclosure.
- We conveyed our views on climate change issues through thoughtful **proxy voting** when evaluating and voting shareholder proposals.
- We **engaged with issuers and regulatory bodies** on climate-related issues both directly and through collaboration with other like-minded investors. In 2020, RBC GAM became a signatory to Climate Action 100+, which is an investor-led initiative that engages with the world's largest GHG emitters in order to seek reductions in GHG emissions, stronger governance of climate change, and enhanced climate-related disclosures. In 2020, this included participation in engagements with four companies.
- We provided **climate-based products and solutions** to meet clients' investment goals. This included providing fossil-fuel free and impact strategies to institutional clients in certain jurisdictions, and providing clients with customized reporting on climate-related metrics.
- We are a formal **supporter of the Task Force on Climate-related Financial Disclosures (TCFD)** and our first RBC GAM 2020 TCFD Report will be published in 2021. This report will describe how we are considering climate-related risks and opportunities in our governance, strategy, risk management, and metrics and targets.

## Human rights

Human rights are inherent in all human beings, whatever their nationality, sex, national or ethnic origin, color, religion, language, or any other status.<sup>6</sup> At RBC GAM, human rights have long been considered in our approach to responsible investment as a material ESG factor. When we vote proxies, we support shareholder proposals that call on companies to respect and comply with relevant human rights agreements that protect those rights, as described in our [Proxy Voting Guidelines](#). In 2020, we took additional actions to advance the consideration of human rights in our investment decision-making and active stewardship activities:

- Provided guidance and training to investment teams on identifying human rights risks, conducting due diligence, and engaging effectively with issuers on this topic. Content focused on sector materiality, international and national agreements, the United Nations Guiding Principles on Business and Human Rights (UNGPs), country- and company-level due diligence, and assessment criteria.
- Updated our Proxy Voting Guidelines to specifically address shareholder proposals related to Indigenous peoples' rights, such as those set out in the UN DRIP.
- From January 1 to December 31, 2020, RBC GAM voted on 776 shareholder proposals, of which 2% were related to human rights issues. Proposals included those focused on enhancing disclosure of policies, processes, and implementation of human rights due diligence across operations and supply chains.

In 2020, our parent company, Royal Bank of Canada (RBC), published a [Human Rights Position Statement](#) that sets out its commitment to respect internationally-recognized human rights in line with the United Nations Guiding Principles on Business and Human Rights. As a wholly-owned subsidiary of RBC, we support this commitment and will continue to work to integrate consideration of human rights into our investment process and operations.

## Diversity & inclusion

At RBC GAM, we believe that companies with strong diversity and inclusion policies and procedures will perform better over the long term. To the extent practicable, the workforce of an organization should reflect the gender, ethnic, cultural and other personal characteristics of the communities in which the corporation operates and sells its goods or services. Companies benefit from strong diversity and inclusion policies because they promote a culture of creative and innovative development which can lead to lower turnover, higher employee morale and the ability to attract and retain talent. Further, companies lacking these policies may face reputational, operational, litigation, and other risks which can impact their long-term value.

### Active stewardship

Our investment teams assess and monitor the diversity and inclusion efforts of our investee companies and their progress over time. Where thorough disclosure on diversity and inclusion policies and practices are not provided or are inadequate, our investment teams will seek to engage with those companies to convey our view on the importance of diversity and inclusion in achieving long-term financial performance.

In addition, we actively vote our proxies to promote diversity and inclusion and full disclosure of related policies and practices. For example, to promote gender diversity, our Proxy Voting Guidelines in 2020 stipulated that if a board had less than 25% women directors and lacked an adequate gender diversity policy, we may vote against members of the Nominating or Corporate Governance committees. We also typically support proposals that promote diversity, dignity and safety in the workplace and the protection of collective bargaining rights. For example, we generally support shareholder proposals for the disclosure of gender or racial pay equity gaps if the company is not already providing adequate disclosure.

### Collaborative activities

Where appropriate, we work collaboratively with other like-minded investors to promote diversity and inclusion. For example, we are a member of the 30% Club Canadian Investor Group which has an objective to achieve a minimum of 30% women on the boards and in senior management roles of S&P/TSX Composite Index companies by 2022. In addition, we are a signatory to the RIA's 2020 Canadian Investor Statement on Diversity & Inclusion which acknowledges the existence of systemic racism and its impacts on Black and Indigenous communities and People of Colour.

As investors we will continue to engage with our investee companies to convey our expectations. We will also integrate diversity and inclusion into our own investment processes and improve diversity and inclusion practices within our own organization.



<sup>6</sup> What are human rights? United Nations Human Rights, Office of the High Commissioner. <https://www.ohchr.org/en/issues/pages/whatarehumanrights.aspx>



# Q&A

Pandemic impact on ESG







### RBC Global Equity team (London)

- Q:** Our RBC Global Equity team looks for businesses that create contingent assets – or intangible assets that the team believes will generate value for shareholders over the long term (e.g., corporate culture, sustainable business practices, etc.). What sort of contingent assets have you seen come to light throughout the COVID-19 pandemic?
- A:** In the first half of the year, we saw many examples of companies sacrificing short-term profits to respond to the pandemic and this being rewarded by an increase in the firms' values. Companies invested in the health and safety of their employees and the communities they operate in switched production to make Personal Protective Equipment (PPE) for healthcare workers, and extended paid vacation time for employees to cope with the stress and demands of the virus' impact. We believe commitments to social factors like a strong workplace culture as well as robust employee management and development can lead to increased employee engagement, productivity, innovation, and retention—all of which can create long-term value for companies and their investors.

### RBC U.S. Equities Core & Value team (Boston)

- Q:** Our RBC U.S. Equity team in Boston is primarily investing in micro- and small- to mid-cap companies. During the pandemic, how important has messaging from the top been for these companies with smaller workforces?
- A:** Throughout the pandemic, we've engaged with investee companies on their employee management practices. We've seen instances of management teams leading by example, taking salary cuts and forfeiting bonuses, as well as examples of clear, transparent communication to employees on the importance of, and their commitment to, health and safety practices. In our view, this focus on a company's people is material to all businesses, regardless of size, but can be especially important for smaller companies navigating the challenges of the pandemic.

### RBC Emerging Markets Equity team (London)

- Q:** Has the COVID-19 pandemic shown us anything about the opportunities in "social infrastructure" in emerging markets?
- A:** The RBC Emerging Markets Equity team defines social infrastructure as essential public assets and services that support peoples' daily lives and have a significant impact on their standard of living. While we have seen unprecedented demand for infrastructure assets in emerging markets (EM), consistent underinvestment has led to substantial shortfalls in the quality and quantity of infrastructure.

Social infrastructure assets support the sustainable growth and development of a country and play a vital role in helping the rapid rise of the EM middle class. The pandemic has heightened awareness of social and environmental factors, and we feel that these are becoming increasing sources of both opportunity and risk. We have therefore decided to focus our infrastructure theme on green infrastructure.

It is likely that efforts to grow certain areas of infrastructure, such as smart cities and social infrastructure, will be better supported in the future. The pandemic has emphasized the importance of social infrastructure in areas such as healthcare, sanitation, housing, and education. For example, if we look at healthcare specifically, underinvestment has contributed to the healthcare infrastructure of EM lagging that of developed markets both in terms of quality and quantity. In our view, COVID-19 has accelerated the demand for healthcare services in EM, and while we expect significant government spending over the next decade, we believe there is an opportunity for the private sector as well.

### **RBC European Equity team (London)**

**Q:** Our RBC European Equity team has thoroughly researched the long-term impacts of technological disruption. How have the impacts of the pandemic on technology fit into your investment process?

**A:** The pandemic has illustrated technological disruptions across sectors, including the capabilities of remote work and changes to the ways we access and consume goods. We believe this exemplifies our view that technology crosses every branch of commerce and all sectors, which is why whenever we look at a new idea to invest in, we ask the question, “Will the sustainability of the business model be affected by technological disruption?” We engage with management teams to get their views and strategic thinking related to potential disruptions and long-term trends, but we also pay close attention to a company’s focus on innovation, as it can be a source of both risk mitigation and opportunity.

### **RBC North American Equity team (Toronto)**

**Q:** Our RBC North American Equity team has several ongoing engagements with investee companies on ESG initiatives, such as those designed to reduce greenhouse gas emissions. How transparent were boards and management on delays or reduced prioritization of these initiatives as companies dealt with the risks posed by the pandemic?

**A:** Our engagements with companies on any postponed or stalled ESG initiatives were largely candid and transparent. At the outset of the pandemic, we had regular conversations with boards and management of investee companies on

their financial status and forward-looking strategies as they grappled with the economic impacts of the pandemic. As long-term investors, we recognized the need for companies to deal with some of the most acute and severe risks, but also saw companies maintaining their long-term focus, including on ESG initiatives. If we look at environmental projects, for instance, we were encouraged to see so many companies emphasizing their continued commitment to projects that would reduce emissions or emissions intensity.

### **RBC Asian Equity team (Hong Kong)**

**Q:** We’ve seen significant progress on ESG factors in several Asian markets in the last few years. Has COVID-19 stalled that progress or are we seeing continued momentum for increased disclosure, improved governance, and investments in climate-related solutions?

**A:** In the second half of 2020, we saw some notable ESG commitments out of Asia. In October, both South Korea and Japan set targets of carbon neutrality by 2050. This came after President Xi Jinping of China announced a net-zero target for 2060. If met, this latter commitment by China alone could have substantial impacts on global emissions overall. These commitments come amidst recent improvements in overall corporate governance standards and practices in the region. For instance, in Japan, since launching the Japan Stewardship Code in 2014, we’ve seen increased levels of board independence, increased use of shareholder proposals, and some improvements to board gender diversity levels. Markets such as South Korea, India, and Taiwan have all launched their own respective stewardship codes as well, so we expect to see continued momentum on these fronts, complementing our ESG integration process and engagements with investee companies on enhancing their ESG disclosures.

### **BlueBay (London)**

**Q:** Have you noticed any wider trends in responsible investment during the pandemic? Has there been an upsurge of interest in responsible investing?

**A:** Yes. The market statistics on scale and pace of asset flows into ESG-themed funds, both passive and active, for 2020 show these have been at a record high. Whilst COVID-19 could be a tipping point for ESG, it is important to point out that the pandemic is only accelerating a trend in ESG investing which was already in place. But the strong performance of ESG-themed funds during this challenging year has certainly attracted some to this market who may not have done so. In our view, the drivers for this have been a mix of increasing societal concerns about



environmental and social problems such as climate change and inequalities, but also a result of increasing ESG regulation.

### PH&N Canadian Equity team (Vancouver)

**Q:** Companies were forced to modify their annual meetings during the 2020 proxy season to a virtual-only format, but a virtual meeting carries some risks for shareholder rights. What do you expect from companies when it comes to shareholder meetings going forward?

**A:** We don't believe that a virtual-only meeting experience is directly comparable to an in-person experience for all shareholders. For example, virtual-only meetings may facilitate the vetting or filtering of tough questions for boards and management. That said, virtual meetings also allow more shareholders to attend shareholder meetings, so there are some benefits. In our view, in the absence of health and safety concerns, a hybrid meeting format that combines a traditional in-person meeting with virtual participation is appropriate. Where virtual participation is used, we do expect robust disclosure from companies on meeting procedures, how shareholder rights are being protected, and how shareholders can ask questions during the meeting.

### RBC U.S. Growth Equity team (Chicago)

**Q:** The pandemic has had many direct impacts on businesses, but many downstream and indirect impacts as well. What are some ESG factors considered in your investment process where we may see the impacts of COVID-19 playing out for years to come?

**A:** One unknown element going forward relates to employee training and advancement opportunities in a work from home environment. Many employees – and more junior employees, especially – develop by observing and working closely with leaders or mentors. At this time, virtual meetings and interactions may not provide those employees with this same experience, so companies will need to thoughtfully consider their approach and how it could impact employee retention, satisfaction, and development.

### RBC Global Fixed Income team (Toronto)

**Q:** Funding for green bonds was increasing prior to the pandemic. But we've also seen bonds used to fund social initiatives. Did we see any examples of social bonds linked to COVID-19 and how do they generally work?

**A:** One specific example in Europe is a social bond, issued by the European Union (EU) under the €100 billion SURE program, which provides "Support to mitigate Unemployment Risks in an Emergency." We have invested in this new instrument. The program provides common funding to EU member states to fight economic and social impacts of the pandemic by preserving employment and financing health-related measures at workplaces to ensure a safe return to normal economic activity.

To finance the program, the European Commission issued social bonds adhering to a Social Bond Framework which describes the use of proceeds to fulfill social objectives. The framework also includes reporting requirements for member states and defines how the funded initiatives contribute towards the United Nations Sustainable Development Goals. In 2020, the European Commission issued nearly €40 billion in social bonds through SURE.

### PH&N Canadian Fixed Income team (Vancouver)

**Q:** What ESG trends have we seen in Canadian corporate credit, specifically? Has there been a change in these trends throughout the pandemic?

**A:** Over the course of 2020, the Canadian investment grade corporate bond market saw just under \$5-billion in green bond issuance, which is approximately 70% more than in 2019. It also became clear that corporate issuers are more aware of the need to improve ESG reporting and in many cases made public commitments on GHG emission reduction targets. Notably, this theme was present across various sectors. For example, in REITs we saw a number of new green bond deals with issuers providing detailed frameworks and third party verified use of proceeds. And in the energy sector, some of Canada's largest entities released their climate change plans that focused on transition and decarbonization. This included some firm goals of becoming net carbon neutral by 2050 with milestone targets along the way and commitments to using their size and scale to encourage advancing solutions that would help Canada as a whole reach net zero by 2050. We are pleased to see the increasing degree of ESG awareness and expect this theme to continue as Canada looks to embark on a path to recovery.

**For more information on RBC GAM's approach to corporate governance and responsible investment, visit [rbcgam.com/cgri](http://rbcgam.com/cgri).**

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