



Asset allocation at RBC Global Asset Management



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The immense complexity of global markets calls for an active and effective asset-allocation strategy to preserve and grow wealth. We all know that diversification is a critical element of long-term success, but that should involve much more than simply collecting and maintaining static exposures to a broad range of traditional asset classes. By shifting relative weights of portfolio holdings to reflect changes in factors that might relate to current and future values, volatilities and liquidity, tactical asset management can modify risk to an investment program and bolster returns. So too can keeping programs up to date with the addition of new asset classes, geographies and specific investment products while reducing or eliminating exposures to those with more limited long-term promise.

An active approach to asset allocation

RBC Global Asset Management (RBC GAM) has over three decades of experience with balanced and multi-asset investment programs. With over \$145 billion of assets managed within these types of solutions, RBC Global Asset Management Inc. is the largest provider in Canada. Our approach to strategic and tactical asset allocation is an important differentiator. A disciplined and well-defined investment process, access to a deep and broad set of investment options and extensive experience in global capital markets are evidenced in our competitive risk-adjusted returns over the long term.

Strategic asset allocation: Studies have shown that a key driver of long-term investment performance is the exposure that a portfolio has to individual asset classes over time. An essential element of our investment process has been access to a broad, deep and growing list of compelling investment options, coupled with a progressive approach to investment policy which establishes appropriate exposures to these asset classes while keeping the program current.

The strategic asset mix specifies the proportion of a portfolio allocated to major and sub-asset classes (e.g. fixed income, equities, alternatives). It is designed to provide an investor with a solution that fits with their individual risk tolerance and return goals. The strategic asset mix can be considered

the benchmark or “neutral” investment plan that anchors a portfolio through many business and investment cycles. It is the most important decision an investor will make, and can determine the bulk of returns over an investor’s time horizon.

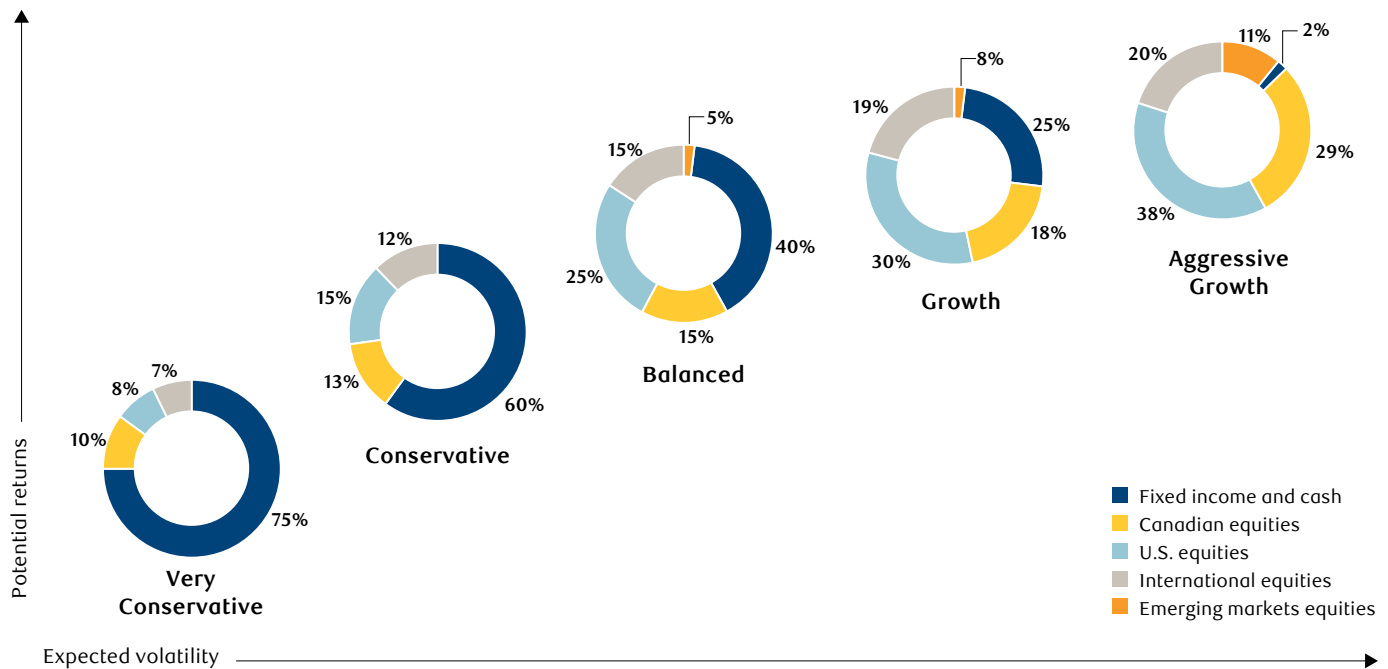
At RBC GAM, we have a team dedicated to establishing and reviewing the strategic asset mix for all of our balanced and multi-asset solutions. With an emphasis on capital preservation and consistency of returns, we have developed a strategic asset-allocation framework for five unique client risk profiles that correspond to broad investor objectives and risk preferences. These five profiles range from Very Conservative through Balanced to Aggressive Growth.

“We don’t need to hit home runs every time ... by hitting singles and doubles we can achieve our goal, with lower volatility in returns.”

Dan Chornous

The strategic asset mix takes a long-term view, so changes are fairly infrequent and tend to reflect the evolution of opportunities between and within asset classes, and the development of new, more efficient investment products. Our

Five profiles to meet investor needs



strategic asset mix has progressed over the past three decades to incorporate secular changes in the economy, changes in long-term expected returns, volatility and liquidity, and the availability of new asset classes and investment solutions.

Tactical asset allocation: More active than strategic asset allocation, a tactical approach involves adjusting exposures to asset classes based on shorter-term expectations for market movements or to reflect shifts in the relationship between risk and return. At RBC GAM, our portfolio management and research teams are always focused on the opportunity, risks, and likely progression of the global economy, interest rates, currencies, corporate profits, equity market valuations and financial market liquidity conditions – the critical elements of returns and volatility.

Our tactical asset mix decisions incorporate a risk-budgeting approach to determine the size of adjustments around the strategic weights. Risk budgeting scales risk (measured as the volatility of past returns) to desired or expected returns and then seeks to efficiently distribute that budget throughout a portfolio. We set risk limits so that no individual

asset class or position accounts for too large a portion of the total risk budget. This prudent approach helps to lower volatility and prevent a single position from dominating the outcomes of any component of the portfolio.

“An active approach to asset allocation is an important source of alpha in today’s rapidly changing markets.”

Sarah Riopelle

We have conducted extensive research to determine how much of the risk budget should be allocated to tactical asset-allocation decisions and concluded that our approach of making measured tactical changes around the strategic weight is appropriate for achieving our goal of adding alpha (i.e. additional investment returns versus the benchmark) over the long term. Changes to the tactical asset mix that are too frequent or moving too far away from the strategic neutral positions can add significant volatility without a commensurate increase in returns.

Successful long-term investment performance is rarely a matter of luck or timing. Rather, it is a function of thoughtfully and prudently choosing a portfolio of investments to minimize risk while maximizing return, and strategically and tactically rebalancing assets to reflect changing markets, the creation of new asset classes, and the global investment outlook.*

*The Art of Asset Allocation: Principles and Investment Strategies for Any Market, David M. Darst

Incorporating our outlook into the asset-allocation process

The RBC GAM Investment Strategy Committee (RISC) is responsible for developing and communicating the firm's outlook for the economy and investment environment. The Committee takes a longer-term view of the economy and markets, and develops detailed economic and capital market forecasts that guide RBC GAM's tactical asset-mix decisions. Chaired by our Chief Investment Officer, the Committee consists of senior investment professionals drawn from across RBC GAM globally. The Committee assesses global fiscal and monetary conditions, projected economic growth and inflation, as well as the expected course of interest rates, major currencies, corporate profits, valuations and stock prices. Important guidance is provided by the Committee's regional equity specialists (North America, Europe, Asia, Emerging

Markets), the Global Fixed Income & Currencies Advisory Committee and the Global Equity Advisory Committee.

RISC and the supporting advisory committees gather formally on a quarterly basis, but also meet monthly and on an ad hoc basis to discuss changes in the economy and markets and consider the impact on our outlook and positioning. These meetings are a key element of our asset-allocation process and provide a forum to share views, challenge forecasts and assess current conditions to determine if any adjustments to our outlook and positions are required.

Our view is published quarterly in The Global Investment Outlook which contains an overall outlook as well as regional commentaries by heads of our investment teams.



RBC GAM Investment Strategy Committee
RBC GAM Investment Policy Committee
PH&N Asset Mix Committee



ASSESSES THE ECONOMY
and investment environment



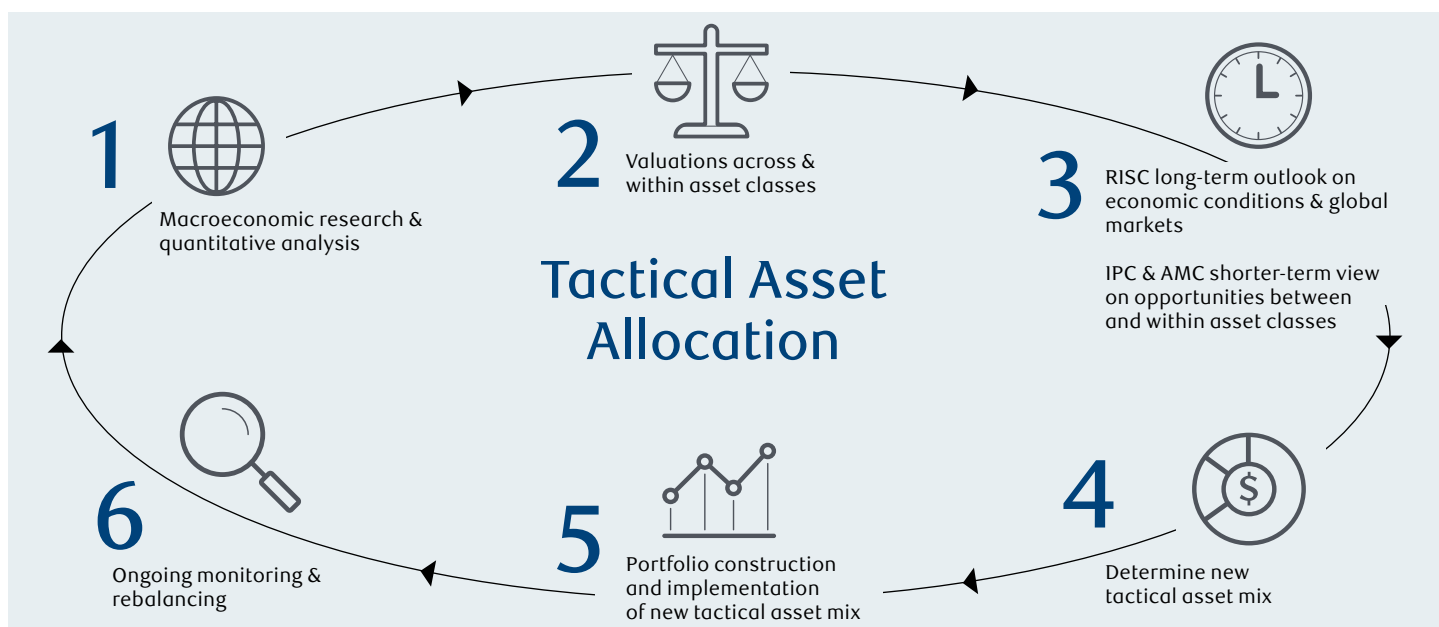
Provides a global
TOP-DOWN VIEW
that is comprehensive and transparent



Develops
SPECIFIC GUIDELINES
that can be used to manage portfolios



OVER \$145 BILLION
of balanced and multi-asset solutions
reflect the views of RISC/IPC/AMC



The views expressed by RISC directly influence the work of the RBC GAM Investment Policy Committee (IPC) and the PH&N Asset Mix Committee (AMC). These committees are responsible for developing, implementing and monitoring tactical asset-mix strategies across all RBC and PH&N balanced solutions.

The IPC and AMC determine the appropriate tactical asset mix for a Balanced Investor and use proprietary algorithms designed to translate that view across our multi-asset funds, including the five investor risk/return profiles, ensuring that the tilts for asset mix and regional exposures are consistent across all funds and profiles.

Market volatility causes portfolios to drift from the targeted tactical weights. Constant monitoring of relative weights within balanced and multi-asset solutions is necessary to ensure that their asset mix remains appropriately positioned. We have a robust process in place to rebalance the portfolios when required, sometimes on a daily basis. In addition, we

track a variety of performance and risk statistics to keep us aware of the risks that we are taking and of the potential impact on the performance of the funds under our care.

Putting it all together

In our view, investment success comes from following a disciplined investment strategy through all market cycles. Having clear investment objectives and a disciplined process and taking a risk budgeting approach to managing asset mix should ultimately help our clients meet their investment goals. This discipline is embedded in all aspects of our investment-management process and is a key element in delivering solid investment performance.

Asset allocation at RBC GAM harnesses the latest thinking and experience of our firm's leaders in every asset class. Decades of honing our expertise in asset allocation has certainly taught us humility, but we are proud of the track record that we have built, consistently adding value over the long term.

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