



APRIL 06, 2020

Staying the course part 2 – Conservative Portfolios



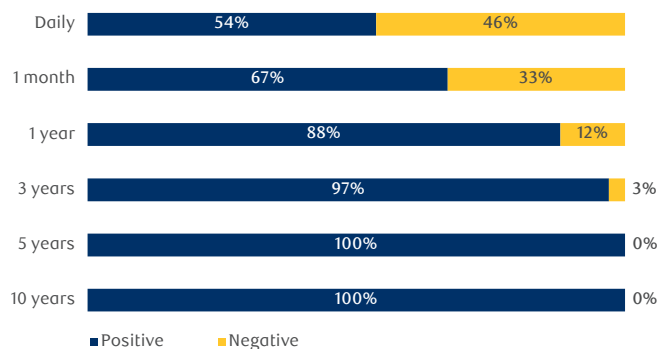
Sarah Riopelle, CFA
 Vice President and Senior Portfolio Manager – Investment Solutions
 RBC Global Asset Management Inc.

I am writing this note as an addendum to the one that was published on March 27. One advisor reached out to me after reading that note and asked if I could provide similar commentary for his clients who invest in RBC Select Conservative Portfolio.

First off, I want to address why we tend to use RBC Select Balanced Portfolio as the example in our commentaries. There are a number of reasons: the balanced portfolio occupies the middle ground of the five risk profiles that we offer (Very Conservative, Conservative, Balanced, Growth, Aggressive Growth); it is Canada’s largest mutual fund; and it has the same neutral asset mix (cash, bonds, stocks) that the RBC GAM Investment Policy Committee references when making tactical asset mix decisions. All of these factors make it our preferred option when providing examples and visuals, and also ensures consistency from one commentary to the next.

In my March 27 note, I highlighted a chart showing the historical odds of RBC Select Balanced Portfolio generating a positive return for various time periods. The chart below provides the same analysis, this time for RBC Select Conservative Portfolio. The results are similar, but the higher allocation to fixed income has helped to dampen volatility in the more conservative profile. It is basically a coin toss whether you get a positive or negative return on a day-to-day basis – 54% of days are positive and 46% of days are negative. But as we looked at longer periods, the likelihood of a positive return increased. In fact, the fund has produced a positive return in 88% of 1-year periods and almost all of the time in 3-year, 5-year and 10-year periods.

RBC Select Conservative Portfolio: Historical odds of each holding period being positive

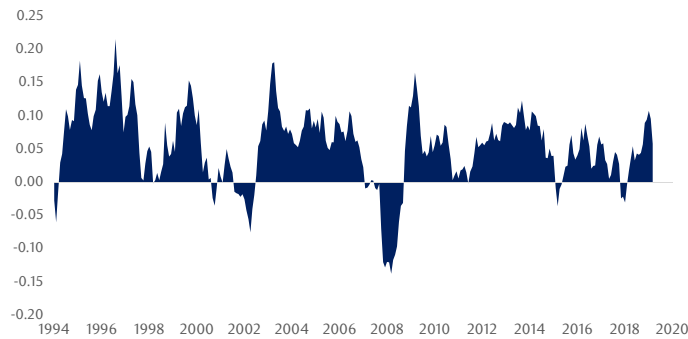


Note: RBC Select Conservative Portfolio (series A). Daily returns are based on time period of Jan. 01, 2000 to Mar. 31, 2020. All other periods are based on Jan. 01, 1987 to Mar. 31, 2020. Source: RBC GAM

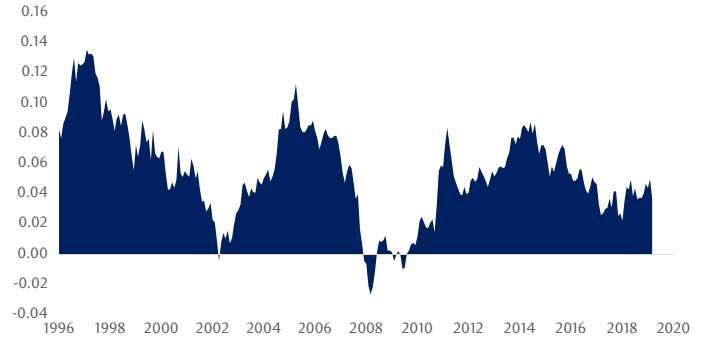
Another way of looking at this is the set of charts below, which show rolling returns over various time periods for RBC Select Conservative Portfolio. Looking at the 1-year rolling performance, you see that the majority of the time the fund has generated positive returns, with only a few periods when returns were negative – the financial crisis in 2008/2009 and

the tech wreck in the early 2000s, in particular. However, when you extend the measurement period out to 3 years, 5 years and 10 years, the incidence of a negative return falls. In fact, for the 5-year and 10-year rolling returns, there are no periods when RBC Select Conservative Portfolio generated a negative return.

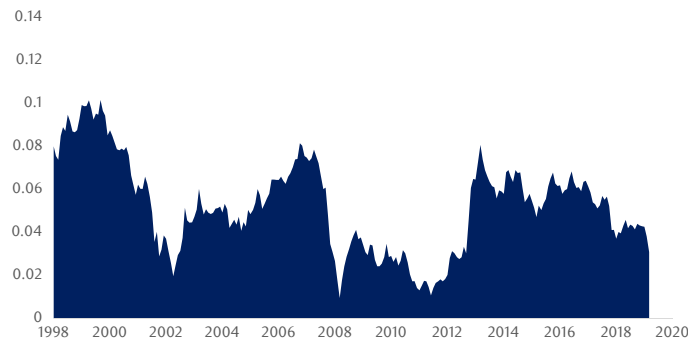
**RBC Select Conservative Portfolio:
1-year rolling return (1 month intervals)**



**RBC Select Conservative Portfolio:
3-year rolling return (1 month intervals)**



**RBC Select Conservative Portfolio:
5-year rolling return (1 month intervals)**



**RBC Select Conservative Portfolio:
10-year rolling return (1 month intervals)**

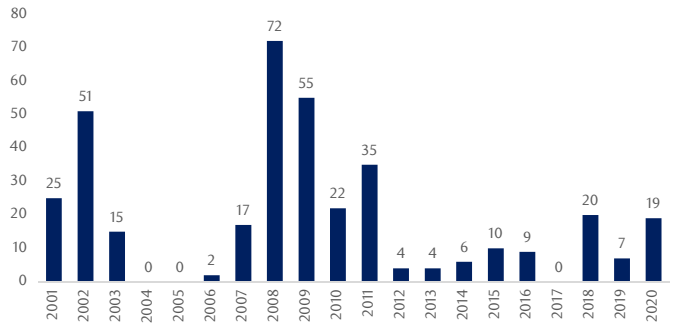


Note: RBC Select Conservative Portfolio returns (series A) as of March 31, 2020: 1yr -3.2%; 3yr 1.0%; 5yr 1.7%; 10yr 4.1%.
Source: RBC GAM

While fixed-income markets have certainly been more volatile than usual during the last few months, they have done their job in these multi-asset portfolios, acting as a ballast during this time of equity-market volatility. Generally, it is the allocation to equities that can cause variability in the fund's results each day. I dug up these next two charts from a presentation that I did in early 2019, after the significant equity-market volatility that we experienced at the end of 2018.

One way of analyzing volatility is to look at the number of days when the S&P 500 moved up or down by more than 2%. You can see that this index has already had 19 such days in 2020 and we are only a quarter of the way through the year! However, that uptick in the number of days is not unprecedented – we have had several periods in the last two decades when this has occurred.

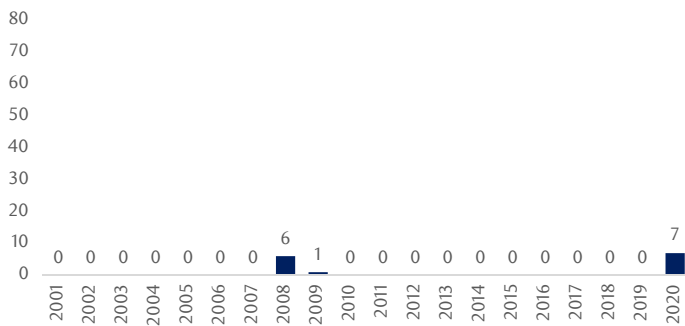
S&P 500 Index: Number of days with a move greater than +/- 2%



Note: As of March 31, 2020. Source: RBC GAM

We prepared a similar chart for RBC Select Conservative Portfolio and also see an uptick in the number of days when the value of the fund moved by more than 2%. What is striking to me is that it is a fairly rare occurrence – the last time we saw this level of volatility was during the financial crisis in 2008/2009. In fact, in most years, we don't have any days when the value of the fund moves by more than 2% in a day.

RBC Select Conservative Portfolio: Number of days with a move greater than +/- 2%



Note: RBC Select Conservative Portfolio (series A) as of March 31, 2020. Source: RBC GAM

Finally, some have asked whether the portfolio management activities that I reference in my note of [March 20](#) also apply to RBC Select Conservative Portfolio. The answer is absolutely! We maintain a disciplined portfolio-management process across the entire RBC Select Portfolios suite, so all of the activity that I described in my earlier note applies to RBC Select Conservative Portfolio as well. This includes expanding drift thresholds, tactical rebalancing, the use of futures to get quick equity market exposure, and the selective addition of high yield bonds.

While I may be sitting alone in my home office (with a cat and a dog as my new assistants!), I am in constant contact with my fund-management team, the macro team and the investment team globally, actively managing all of the strategies on behalf of our clients. Attention to detail and constant communication are key and I am enormously proud of how the entire team at RBC GAM has stepped up during these unprecedented times.

Disclosure

This has been provided by RBC Global Asset Management Inc. (RBC GAM) and is for informational purposes only, as of the date noted only. It is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. RBC GAM takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when provided. Past performance is no guarantee of future results. Interest rates, market conditions, tax rulings and other investment factors are subject to rapid change which may materially impact analysis that is included in this document. You should consult with your advisor before taking any action based upon the information contained in this document. Information obtained from third parties is believed to be reliable but RBC GAM and its affiliates assume no responsibility for any errors or omissions or for any loss or damage suffered. RBC GAM reserves the right at any time and without notice to change, amend or cease publication of the information.

Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of future results or events. Forward-looking statements are not guarantees of future performance or events and involve risks and uncertainties. Do not place undue reliance on these statements because actual results or events may differ materially from those described in such forward-looking statements as a result of various factors. Before making any investment decisions, we encourage you to consider all relevant factors carefully.

Please consult your advisor and read the prospectus or Fund Facts document before investing. There may be commissions, trailing commissions, management fees and expenses associated with mutual fund investments. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The indicated rates of return are the historical annual compounded total returns for the periods indicated including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. RBC Funds, BlueBay Funds and PH&N Funds are offered by RBC Global Asset Management Inc. and distributed through authorized dealers in Canada.

® / ™ Trademark(s) of Royal Bank of Canada. Used under licence.
© RBC Global Asset Management Inc. 2020

Publication date: April 06, 2020

(06/04/2020)

FROM THE DESK OF SARAH RIOPELLE - APRIL 6, 2020 04/03/2020

