PH&N Balanced Pension Trust

Pre-Fee Rates of Returns June 30, 2023 (%)	3 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	10 Yr	SI
PH&N Balanced Pension Trust	1.17	10.16	-0.12	6.12	6.33	6.11	8.07	7.19[1]
*BPT Benchmark**	*1.61*	*11.37*	*0.53*	*5.41*	*5.47*	*5.52*	*6.98*	*6.74*
Relative Performance	-0.44	-1.21	-0.65	+0.71	+0.86	+0.59	+1.09	+0.45
Total Cash & Equivalents	1.20	3.95	2.20	1.55	1.64	1.70	1.34	
FTSE Canada 30-Day T-Bill Index	*1.10*	*3.67*	*1.98*	*1.36*	*1.36*	*1.40*	*1.06*	
Total Bonds	-0.51	2.67	-4.15	-2.82	-0.13	1.32	2.53	
PH&N Bond Fund	-0.51	3.75	-3.90	-3.11	-0.22	1.24	2.55	
PH&N High Yield Bond Fund	0.87	4.11	-0.33	3.78	3.55	3.79	5.20	
RBC Global Bond Fund**	-0.59	-1.40	-5.71	-3.93	-1.27	0.45	2.50	
FTSE Canada Universe Bond Index	*-0.69*	*3.15*	*-4.40*	*-3.75*	*-0.96*	*0.65*	*2.06*	
Total Real Estate	-0.52	5.56	9.63	8.85	-	-	-	
RBC Canadian Core Real Estate	-0.52	5.56	9.65	8.87	-	-	-	6.30[2]
Canadian CPI (Non-Seasonally Adjusted) 1-month lag + 400 bps	*2.59*	*7.36*	*9.52*	*8.88*	-	-	-	*7.96*
Total Canadian Equities	1.64	12.54	4.70	14.57	10.07	8.78	9.53	
PH&N Canadian Equity Underlying Fund	1.42	11.70	3.97	13.97	9.54	8.36	9.30	7.44
PH&N Canadian Equity Value Fund	1.81	10.73	6.95	16.50	9.52	8.22	9.51	
PH&N Small Float Fund	2.44	22.63	3.39	12.90	12.50	10.43	12.17	
S&P/TSX Capped Composite Index	*1.10*	*10.43*	*3.03*	*12.42*	*8.58*	*7.62*	*8.43*	
Total Global Equities	2.53	15.93	-0.42	8.84	8.82	7.91	12.72	
RBC Global Equity Focus Fund	0.77	9.15	-4.38	6.77	7.77	7.95	-	12.37[3]
MSCI World Net Index (C$)	*4.45*	*21.57*	*4.16*	*11.10*	*10.11*	*9.20*	-	*10.57*
RBC QUBE Global Equity Fund	5.07	25.98	5.73	12.41	11.42	8.72	-	12.59[4]
MSCI World Net Index (C$)	*4.45*	*21.57*	*4.16*	*11.10*	*10.11*	*9.20*	-	*12.01*
RBC Global Equity Leaders Fund (C$)	1.87	13.27	-2.12	-	-	-	-	0.64[5]
MSCI World Net Index (C$)	*4.45*	*21.57*	*4.16*				-	
RBC Emerging Markets Equity Fund	1.37	13.93	-3.41	4.78	3.13	4.36	8.27	
MSCI Emerging Markets Net Index (C$)	*-1.35*	*4.38*	*-9.87*	*1.34*	*1.18*	*1.05*	*5.31*	

*BPT Benchmark (November 2020-Present):1% FTSE Canada 30 Day TBill Index, 36% FTSE Canada Universe Bond Index, 3% Canada CPI (Non-Seasonally Adjusted) 1-month lag + 400 bps, 20% S&P/TSX Capped Composite Total Return Index, 36% MSCI World Total Return Net Index (CAD), 4% MSCI Emerging Markets Total Return Net Index.

Previous BPT Benchmarks: (October 2019-October 2020):1% FTSE Canada 30 Day TBill Index, 39% FTSE Canada Universe Bond Index, 20% S&P/TSX Capped Composite Total Return Index, 36% MSCI World Total Return Net Index (CAD), 4% MSCI Emerging Markets Total Return Net Index.
(October 2014-September 2019): 2% FTSE Canada 30-Day T-Bill, 38% FTSE Canada Universe Bond Index, 30% S&P/TSX Capped Composite Index, 26% MSCI World Net Index (CAD) and 4% MSCI Emerging Market Index Net (CAD).

(Inception-September 2014): 5% DEX 30-Day T-Bill, 35% DEX Universe Bond Index, 35% S&P/TSX Capped Composite Index, 25% MSCI World ex-Canada Index (CAD)
** The FTSE WGBI Index (CAD) Hedged Index is the benchmark for the fund. The FTSE Canada Universe Bond Index is shown for illustrative purposes only

.[1] Inception date: October 31, 2002; [2] Inception date: October 31, 2019;[3] Inception date: April 28, 2014; [4] Inception date: June 30, 2013; [5]Inception date: May 17, 2021

Series O performance. Periods less than one year are not annualized. Unless otherwise indicated, all returns cited in this report are expressed in Canadian dollar terms

Within the PH&N Balanced Pension Trust, we made no changes to our asset mix positioning, which remains set to our neutral targets; however, we did execute one rebalance in mid-April, which resulted in a small trim of equities in favour of bonds. Risk assets rallied through the quarter, shrugging off the U.S. regional banking crisis and continued hawkish comments and actions by central banks. Under the surface, equity market gains were fairly narrow and focused on AI-related names in Information Technology and Communication Services. Against this backdrop, our Asset Mix Committee believes it is prudent to keep the portfolios at their neutral targets and wait for better opportunities to add equity risk.

The PH&N Balanced Pension Trust returned 1.17% over Q2, bringing the one-year return to 10.16%. At the end of the quarter, its asset weighting was as follows:

Portfolio Asset Mix as at June 30, 2023 (%)

	PH&N BPT	Benchmark
Cash & Equivalents	0.8	*1.0*
Bonds	34.7	36.0
PH&N Bond Fund	27.3	
PH&N High Yield Bond Fund	0.2	
RBC Global Bond Fund	7.2	
Real Estate	4.0	*3.0*
Canadian Equities	20.1	*20.0*
PH&N Canadian Equity Underlying Fund	12.9	
PH&N Canadian Equity Value Fund	5.0	
PH&N Small Float Fund	2.2	
Global Equities	40.4	*40.0*
RBC Global Equity Focus Fund	16.2	
RBC QUBE Global Equity Fund	14.8	
RBC Emerging Markets Equity Fund	3.9	
RBC Global Equity Leaders Fund	5.5	
Total Fund	**100.0**	***100.0***

Attribution of the one-year results is shown below:

PH&N Balanced Pension Trust Attribution – Total Fund One Year Ending June 30, 2023 (%)						
	Returns			Attribution		
	Fund	Benchmark	Relative Performance	Asset Allocation	Security Selection	Total Effect
Cash & Equivalents	3.95	3.67	0.28	0.01	0.00	0.01
Fixed Income	2.67	3.15	-0.48	0.12	-0.16	-0.03
Real Estate	5.56	7.36	-1.80	-0.06	-0.06	-0.12
Canadian Equity	12.54	10.43	2.11	0.03	0.37	0.40
Global Equity	15.93	19.88	-3.95	0.03	-1.36	-1.33
Total	**10.16**	**11.37**	**-1.21**	**0.14**	**-1.22**	**-1.08**

Please note that the column totals may not add due to a compounding and interaction effect.

PH&N Bond Fund

The PH&N Bond Fund returned -0.51% in the second quarter and 3.75% over the past year, outperforming its benchmark over both periods.

The Bank of Canada (BoC) raised its policy rate by 0.25% to 4.75% in June, citing that policy rates were not sufficiently restrictive amid elevated inflation and a resilient economy. It is prudent to remember that monetary policy acts with a lagged effect, and that the full effect of the past year's hikes is gradually having its intended effect on economic activity and inflation. Against this backdrop, yields continued to exhibit remarkable volatility this quarter and ended meaningfully higher. As a result, the Government of Canada (GoC) yield curve inverted further, while broad credit spreads tightened on the back of improved investor risk appetite.

Higher yields were the primary driver of largely negative bond returns this quarter, with the FTSE Canada Universe Bond Index returning -0.69%. The portfolio finished ahead of the benchmark for the quarter with contributions coming from both interest rate anticipation and credit strategies.

As a result of the sharp rise in yields experienced over the past 18 months, bond market performance has been significantly low or negative. However, recall that this increase means the yield for your portfolio is significantly higher than where it was prior to the start of the hiking cycle. The portfolio's meaningfully higher current yield should be a helpful tailwind to improve long-term prospective returns.

In aggregate, tactical management of the portfolio's duration and yield curve positioning was a positive contributor to relative performance, as we were able to take advantage of the heightened yield volatility.

A small tactical position in U.S. Treasuries had a broadly neutral impact on performance, as the spread differential versus similar-term GoC bonds widened only slightly.

The portfolio's overweight to provincial and government agency bonds added to relative returns due to spreads narrowing and advantageous security selection over the quarter.

The portfolio's overweight to investment grade corporates was a roughly neutral driver of relative performance over the quarter, as beneficial spread compression was offset by security selection decisions.

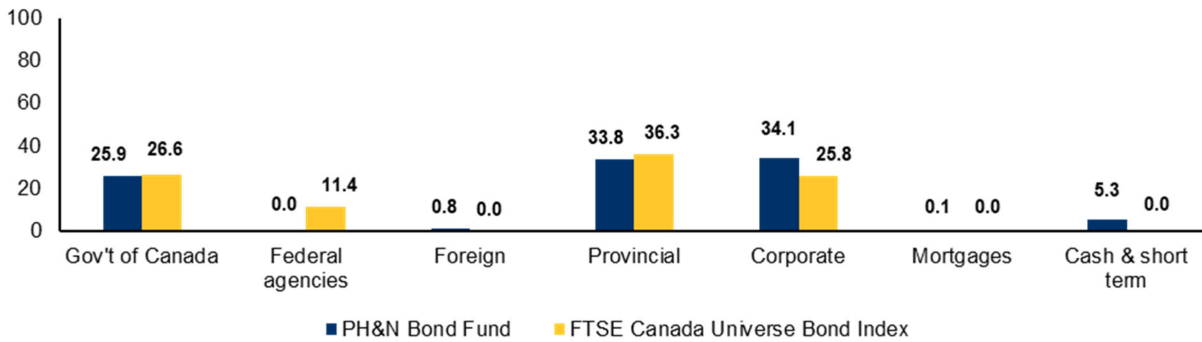
Overall, the portfolio maintained its medium level of risk over the quarter; however, we remain focused on more liquid, high-quality areas of the market, as we are cognizant that we are in the late stage of the business cycle and that recession risk remains prevalent.

PH&N Bond Fund – Portfolio Structure as of June 30, 2023

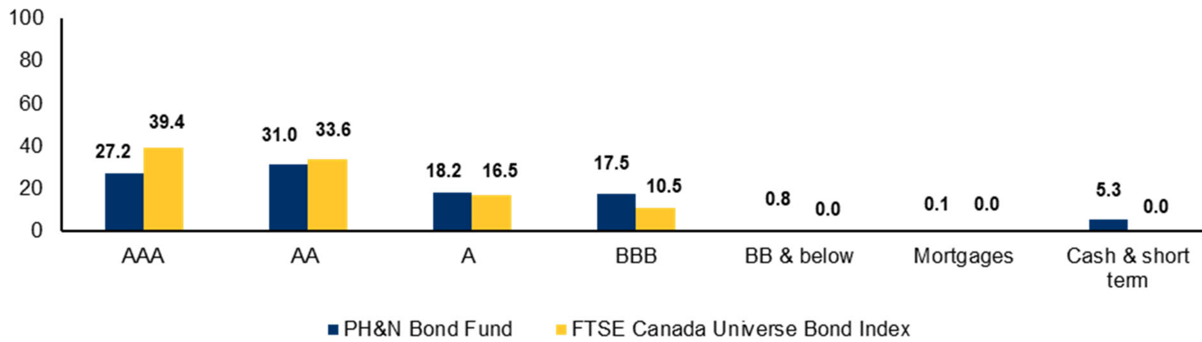
Fund Characteristics

	Modified Duration (Yrs)	Term to Maturity (Yrs)	Yield to Maturity (%)
PH&N Bond Fund	7.47	10.63	4.50
FTSE Canada Universe Bond Index	*7.39*	*10.17*	*4.37*

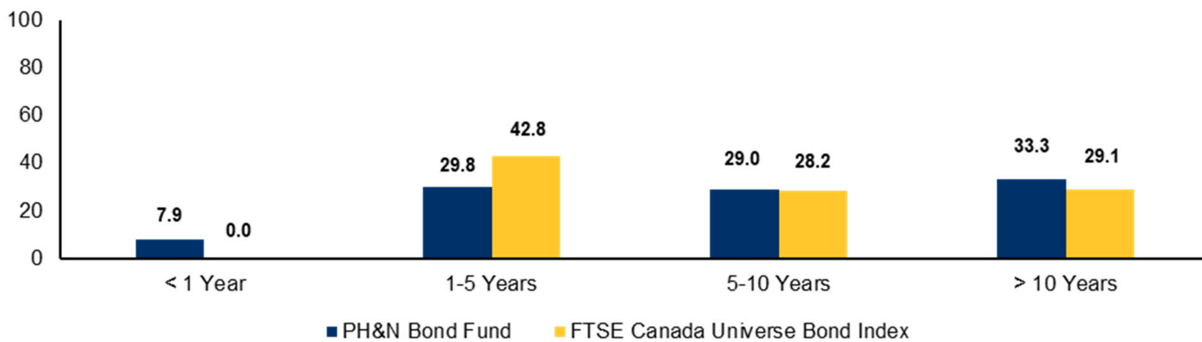
Issuer Analysis (%)



Rating Analysis* (%)



Maturity Analysis (%)



* Current ratings based on average across rating agencies (DBRS, Moody's, S&P) where available. Ratings at the time of purchase may differ. Totals may not add to 100% due to rounding.

PH&N High Yield Bond Fund

The PH&N High Yield Bond Fund returned 0.87% in the second quarter and 4.11% over the past year, outperforming its benchmark over both periods.

High yield spreads tightened over the quarter, falling from 458 basis points (bps) on March 31 to 405 bps on June 30.

The U.S. Federal Reserve (the "Fed") hiked its federal funds rate by 25 bps in May, increasing the target range to 5–5.25%. The treasury market is anticipating one more hike from the Fed by July and for policy rates to remain near those levels for the remainder of 2023, reflecting a 'higher for longer' environment as rate cut expectations are pushed into 2024.

Issuance in the high yield market was strong over the quarter, as capital market conditions improved after rate and equity volatility faded following the banking crisis.

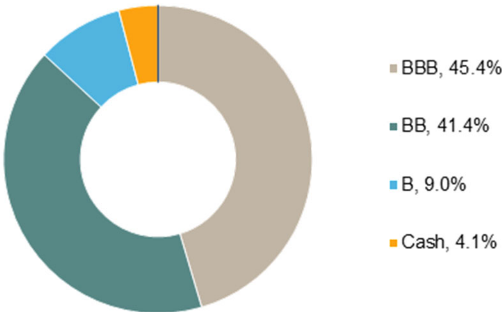
Default activity continues to remain elevated in 2023 relative to last year. The 12-month trailing default rate (including distressed exchanges for U.S. high yield bonds) was 2.7%, which remains marginally below the long-term average of approximately 3%.

Corporate profits remain vulnerable and may soon encounter headwinds, as slowing economic growth is likely to weigh on companies' pricing power and earnings.

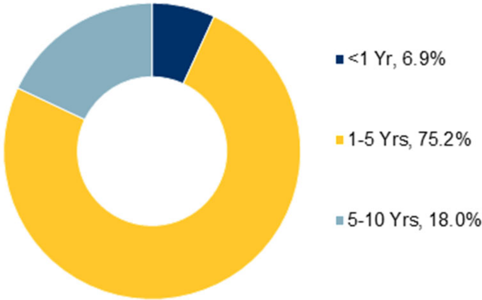
Despite looming risks, the absolute yield available in high yield bonds continues to provide attractive potential returns. Historically, the performance stemming from yields similar to today's levels has been compelling over the 1–2 years that follow.

PH&N High Yield Bond Fund – Portfolio Structure as of June 30, 2023

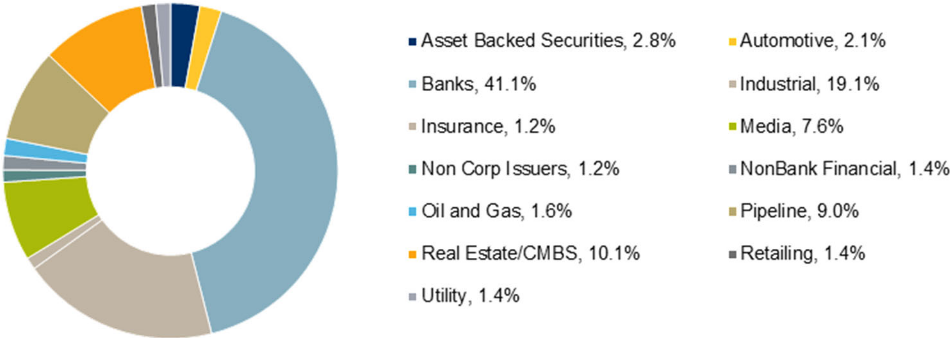
By Rating



By Maturity



By Industry Group



Modified Duration:	2.93 Years
Yield to Worst:	7.78%
Average Term:	4.41 Years

Effective duration, yield to worst and average term have been calculated in BondLab, utilizing a proprietary option-adjusted model. Ratings are Bloomberg composites. Other metrics are available upon request.

RBC Global Bond Fund

The RBC Global Bond Fund returned -0.59% in the second quarter and -1.40% over the past year, underperforming its benchmark over the quarter but outperforming over the year. The strategy's overweight positioning in several developed market issuers was the primary detractor.

Positioning within global government bonds detracted from relative performance. A bias toward developed market countries with greater household sensitivity to high short-term interest rates detracted from performance, as short-maturity bond yields continued to rise in issuers such as Norway, Sweden, Australia, and New Zealand. The portfolio's relative-value overweight Canada vs. underweight U.S. positioning also detracted from performance. Policymakers in Canada have been more aggressive on monetary policy than anticipated, with continued interest rate increases from the Bank of Canada (BoC) negatively affecting strategy performance. The portfolio remains positioned towards countries that have already moved to tight monetary conditions and high interest rates, which we believe will slow economic activity. We believe these countries are more likely to complete their interest rate hiking programs earlier and are more likely to loosen monetary conditions if economic conditions deteriorate, which should benefit government bond performance.

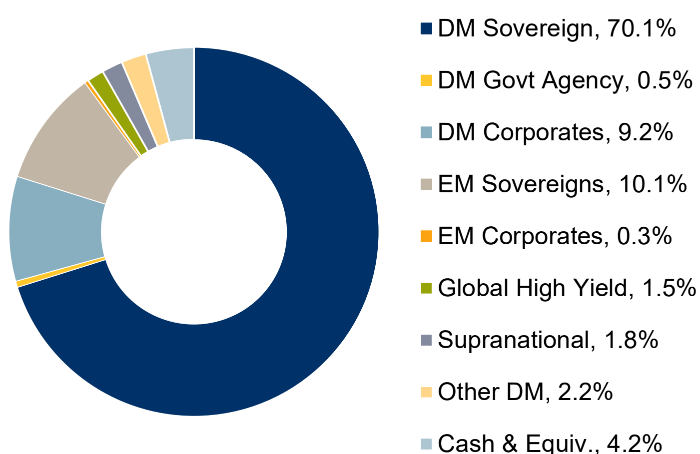
The portfolio benefitted from its credit positions during the quarter. The additional income provided by elevated credit bond yields, alongside tightening credit spreads, contributed to relative performance. Credit positioning remains conservative, with a bias toward short-maturity investment grade bonds. The strategy continues to run reduced risk in emerging markets and near-zero exposure to high yield bonds, as economic uncertainty is more likely to have a negative effect on those asset classes.

Currency positioning remains very selective, with only small positions being taken. Continued strength within the Canadian dollar (the strategy's base currency) has resulted in a less attractive environment for foreign currency positions, in our view.

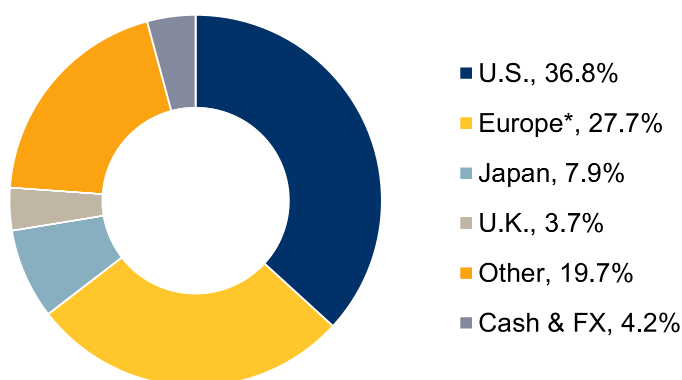
RBC Global Bond Fund – Portfolio Characteristics and Structure as of June 30, 2023

As at June 30, 2023	Duration (Yrs)	Hedged Yield (%)	Avg. Rating
RBC Global Bond Fund	**7.45**	**4.68**	**AA**
FTSE World Government Bond Index – CAD hedged	**7.30**	**4.28**	**AA**

Asset Allocation Breakdown

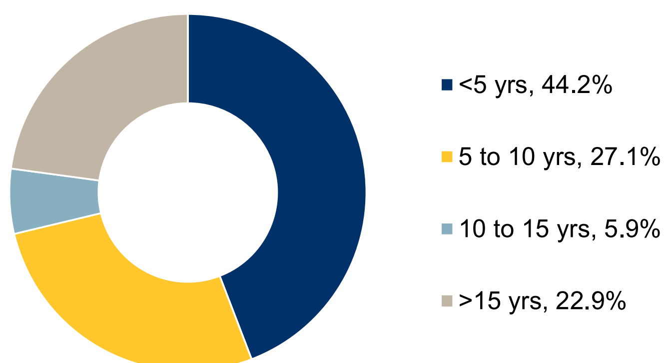


Regional Breakdown

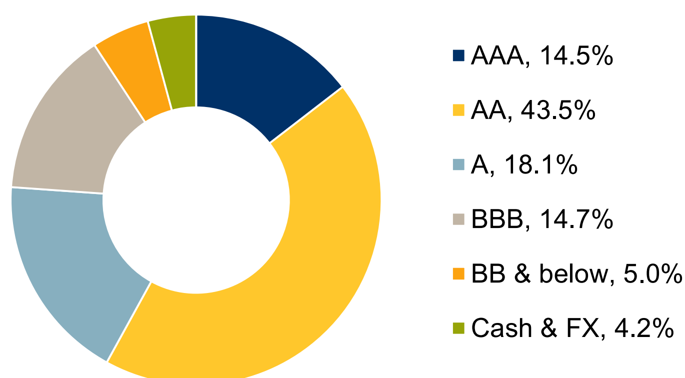


*Europe consists of European Monetary Union (EMU) members who qualify for inclusion in the FTSE WGBI index

Maturity Breakdown



Credit Quality Breakdown



Totals may not add to 100% due to rounding

RBC Canadian Core Real Estate Fund

The RBC Canadian Core Real Estate Fund returned -0.52% in the second quarter and 5.56% over the past year.

Resilient occupancy and stable cash flow levels helped mitigate the impact of rising valuation metric changes across all asset classes, most notably in the office sector.

In mid-July, the fund's Q2 2023 asset valuations reflected a 1.5% decline in GAV, predominantly attributable to a 3.4% decline in office asset valuations due to rising return expectations, low transaction activity, and weak investor and lender sentiment. The continued positive operational performance of the office portfolio – leasing was again very solid in Q2 – helped mitigate the valuation decline. Overall, the portfolio is well positioned for the balance of the year thanks to exceptionally strong leasing activity across all sectors over the past 18 months. The fund expects to continue to capitalize on the flight-to-quality trend across all sectors that will ultimately drive net operating income (NOI) growth. This “cash flow growth” strategy is designed to help protect asset prices from short-term macroeconomic volatility like rising interest rates and a potential recession.

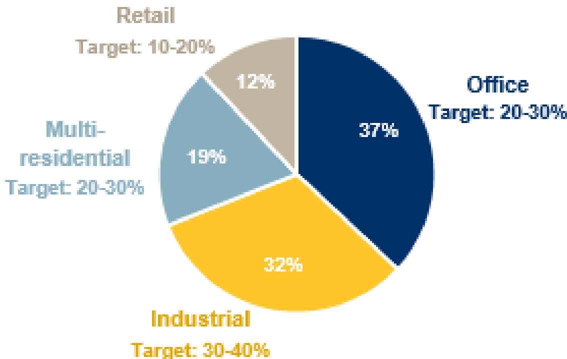
The fund and BCI/QuadReal are working together on the disposition of two assets in the portfolio that in the owners’ view have reached peak potential NOI growth: a retail asset in Calgary and a residential asset in Ottawa. Dispositions form an important component of the fund’s active portfolio management strategy. In addition, discussions with BCI relating to Tranche 5 are ongoing, as the fund has contractual control to increase its ownership in select existing assets. We are also in discussions with BCI to potentially add three new assets to the portfolio. This off-market pipeline uses an established non-competitive pricing mechanism and presents the fund with a unique competitive advantage.

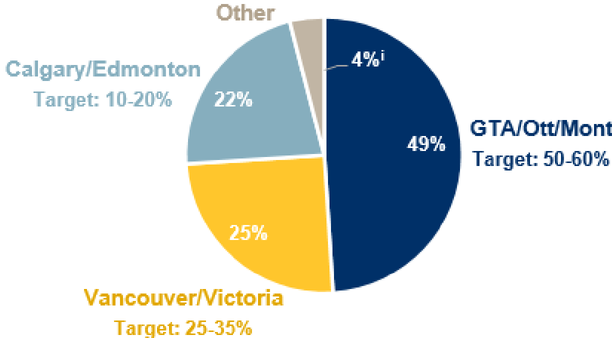
As part of its strategy for 2023 and 2024, the fund will continue to build on its fundamental philosophy to maintain a very flexible and liquid balance sheet, hold high-quality assets in major markets, consistently invest in the modernization of each asset, and pledge to uphold high environmental, social, and governance standards. The fund's low leverage and available liquidity are designed to both maintain cash flow stability as well as support the execution of its active investment program through opportunistic points in the cycle.

For the remainder of 2023, the fund will continue to explore accretive acquisitions and disposition opportunities that will strengthen the overall portfolio mix in line with the fund’s long-term allocation targets while maintaining its conservative capitalization strategy (low leverage and high liquidity).

RBC Canadian Core Real Estate Fund as of June 30, 2023

Key metrics





[i] Other = Hamilton, Kitchener, Cambridge, and Red Deer

[1] At 100% share
[2] Based on 2023 budgeted NOI with adjustments made to average incentives, such as rent free periods, over the term of the lease in order to present a stabilized NOI yield; excludes projects under development and land (~1% of Q2 2023 GAV)
[3] Weighted by area; excludes projects under development and land (~1% of Q2 2023 GAV)
[4] Weighted by area; excludes multi-residential and projects under development and land (~1% of Q2 2023 GAV)
[5] Market value of borrowed funds as a percentage of Fund GAV
[6] For the LTM ending June 30, 2023; Series O

PH&N Canadian Equity Underlying Fund

The portfolio outperformed the Canadian equity market this quarter, posting a return of 1.42%. Overall, 5/11 sectors contributed positively to relative performance, particularly Energy and Utilities, while Financials and Consumer Staples detracted the most.

Small-cap holding **Stella-Jones** was the top individual contributor to relative returns. One segment of their business – supplying telephone and utility poles – has been experiencing demand tailwinds due to infrastructure spending bills in the U.S. and 5G wireless build-out, and the need for fire-wrapped poles in high-risk forest fire areas like California. As a result, the stock performed very well during the quarter.

Canadian Apartment Properties REIT (CAPREIT) was a top contributor to relative returns this quarter, as the expected pick-up in rent growth materialized. Increased immigration in Canada alongside a very tight housing supply market drove rents higher, which benefited CAPREIT.

Within Consumer Staples, our position in **Saputo** was the top detractor from returns in the second quarter after the stock fell 15% following their fiscal fourth quarter results. They are facing near-term demand concerns due to a sharp decline in dairy commodity prices. Despite these macro headwinds, we see attractive returns for the stock and growth opportunity ahead and believe the management team will continue to make improvements to the business quality.

Small-cap holding **Aritzia** was a top individual detractor from relative returns again this quarter due to poor messaging from management on margin expectations, which were hampered by excess inventory and store expansions. Like many retailers, Aritzia has been managing high inventory levels resulting from overbuying to combat COVID-induced supply chain delays that have since normalized. As a long-term investor, and given that sales remain strong, we believe they will be able to effectively drawdown excess inventory over time. The company is also managing a transition to new locations in several major U.S. cities, where they negotiated lower rents in better locations opportunistically during COVID, when demand for commercial real estate was low. This is a temporary drag on financials for Aritzia while they carry extra leases, and we continue to have conviction in their growth plan.

For our Canadian banks positioning, we are targeting a smaller weight than a year ago to better position the portfolio for the current late stage of the economic cycle. In terms of individual holdings, we prefer to own banks that are best able to manage an economic downturn, and those that have deployed capital to enhance growth opportunities. For example, **BMO** and **RBC** are larger positions (BMO's deal with Bank of the West recently closed and RBC is set to close on its deal to acquire HSBC Canada early next year).

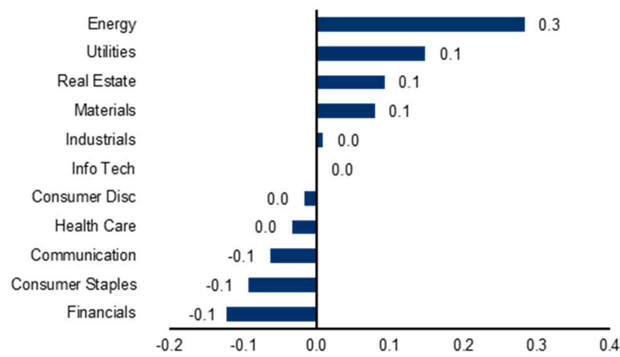
Within Industrials, we focus on quality growth holdings, particularly global engineering firms, as we view these companies as good, late-cycle businesses due to their ability to adjust costs to maintain margins during an economic downturn. We prefer to own these companies over more economically sensitive businesses, such as Air Canada and Finning, particularly as the likelihood of a recession increases.

Recession risks continue to weigh on the cyclical sectors like Financials, Materials and Energy, so we will continue monitoring the risk/reward opportunities within these sectors.

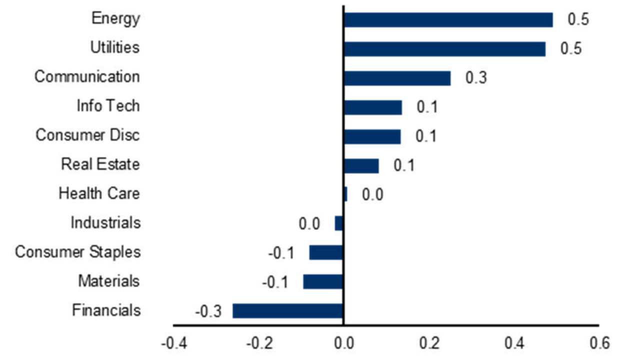
PH&N Canadian Equity Underlying Fund
Portfolio Attribution and Structure as of June 30, 2023

Fund Characteristics	# of Holdings	Avg Market Cap (C$ billions)	Dividend Yield (%)
PH&N Canadian Equity Underlying Fund	**100**	**59.7**	**3.1**
S&P/TSX Capped Composite Index	*229*	*59.6*	*3.2*

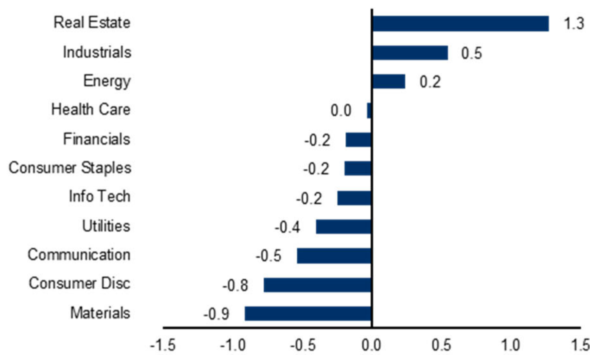
3 Month Attribution (%)



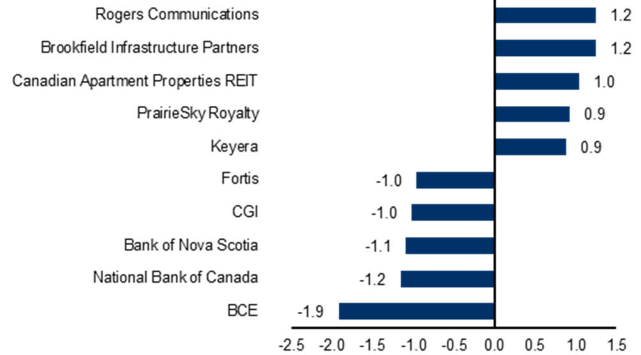
1 Year Attribution (%)



Sector Active Weights (%)



Largest Active Weights (%)



PH&N Canadian Equity Value Fund

The PH&N Canadian Equity Value Fund returned 1.81% in the second quarter and 10.73% over the past year, outperforming its benchmark both periods.

In a reversal from the previous quarter, the Materials sector performed the worst owing to negative returns in the gold sub-sector. Receding concerns about the U.S. regional banking stress and better investor mood in general meant less demand for gold's "safe heaven" quality, leading to lower price for the commodity and gold companies more broadly. This helped relative performance, given our typical underweight positioning in this area.

Security selection in the Industrials sector was also an important contributor to outperformance. Our position in **Air Canada** delivered a solid gain following a strong earnings report. The business is enjoying a tailwind from lower fuel costs and robust airfare pricing environment. The anticipated uptick in travel demand from China is yet to materialize and could provide another boost for the business. **ATS Automation** was another notable contributor to relative performance in this sector. The automation solutions provider continues to deliver strong operating results and is well positioned to execute on its M&A strategy following a recent U.S. IPO.

The only notable detractor this quarter came from our positioning in the Information Technology sector. E-commerce company **Shopify** was up significantly, as investors viewed favourably its plans to re-focus on the core business while controlling expenses. Though we established a position in the company late last year following a major sell-off in the stock, we remain cautious overall with a lower weight than the benchmark, as expectations for the business remain too optimistic in our view.

We continue to adjust our positioning away from banks we view as more vulnerable (**CIBC, Scotiabank**) while adding to **TD** given the strength of its domestic franchise and significant excess capital, which should support share buybacks and potential growth opportunities.

We trimmed our position in **Suncor** in anticipation of additional capital the company will need to spend to replace expiring production. We also added to our position in **MEG Energy** – a pure oil producer that we expect to benefit from improving pricing environment for Canadian heavy oil.

Turning to the Industrials sector, we modestly trimmed our core positions in railroad operators **CN** and **CP** due to elevated valuations relative to U.S. peers and the near-term risk of softer shipping volumes.

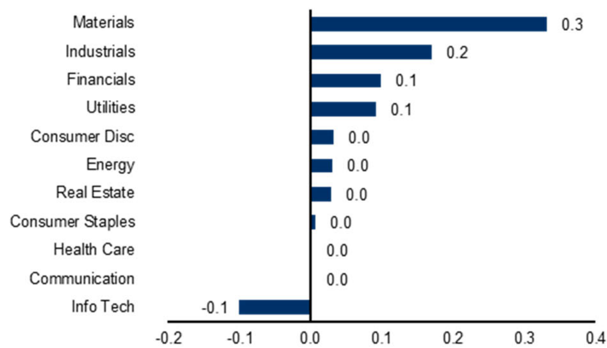
In the Materials sector, we added to our position in fertilizer company **Nutrien** at valuations that already reflect many of the economic risks. Elsewhere within the sector, we added to our positions in **First Quantum** and **Teck Resources**.

In the Consumer Discretionary sector, we have added to our positions in more resilient businesses, such as **Dollarama** and **Pet Valu**. Elevated inflation has enabled Dollarama to add higher-priced items while continuing to attract cost-conscious consumers in this environment. Pet Valu is a leader in pet care, where demand tends to grow across economic cycles.

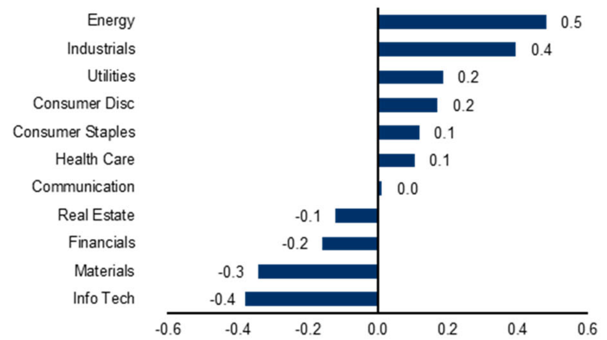
PH&N Canadian Equity Value Fund
Portfolio Attribution and Structure as of June 30, 2023

Fund Characteristics			
	# Of Holdings	Avg Market Cap (C$ billions)	Dividend Yield (%)
PH&N Canadian Equity Value Fund	**83**	**63.3**	**3.1**
S&P/TSX Capped Composite Index	*229*	*59.6*	*3.2*

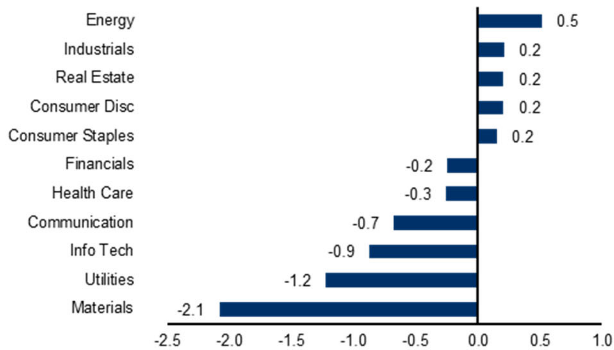
3 Month Attribution (%)



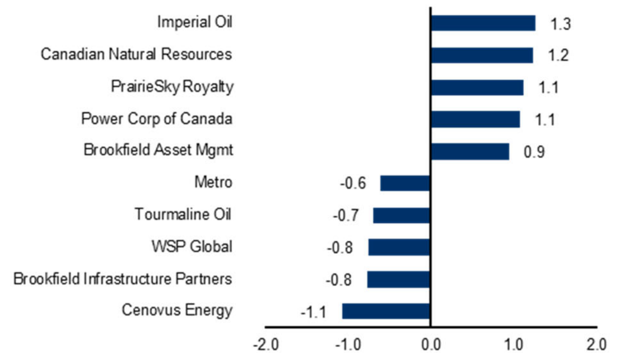
1 Year Attribution (%)



Sector Active Weights (%)



Largest Active Weights (%)



PH&N Small Float Fund

The PH&N Small Float Fund returned 2.44% in the second quarter and 22.63% over the past year, outperforming its benchmark over both periods.

The PH&N Small Float Fund focuses on investing in high-quality, well-managed, small-cap companies with above-average growth prospects. These industry leaders tend to perform well in most stock market environments.

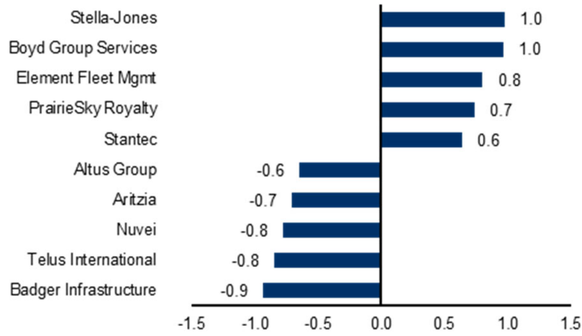
Stella-Jones was up strongly in the quarter after reporting better-than-expected financial results and raising near-term guidance on the back of solid demand for utility poles, steady demand for rail ties, and normalizing demand for treated lumber products. With dominant market share positions in North American ties and poles, we believe Stella-Jones will continue to benefit from upcoming infrastructure and grid hardening investments. **Boyd Group** appreciated significantly this quarter after reporting strong same store sales growth, market share gains, and improving supply of both labour and parts. Boyd struggled coming out of the pandemic, as parts shortages and an industry-wide lack of labour led to longer repair times and therefore less throughput at their collision repair facilities. Parts supply is improving, and management has taken steps to address labour challenges that should lead to continued slow but steady progress. **Element Fleet Management** was up meaningfully this quarter, as results beat expectations due to higher originations and service revenues. The company continues to benefit from increased originations as OEM production improves and sees higher service revenue from gaining share of wallet with customers. The momentum in the business led Element to increase guidance.

Badger Infrastructure Solutions was down in the quarter due to weaker-than-expected Q1 margins caused by the ongoing ramp up of their national account sales strategy. As the rollout of their national account strategy progresses and they implement procedures to optimize pricing, we expect improved margin performance. Our position in **Telus International (TIXT)** was a detractor during the quarter. The stock sold off over concerns that TIXT's call centre business will be disrupted by new generative AI technologies. While the magnitude of the potential impact is uncertain, we do believe there will continue to be demand for TIXT's call centre services in the future. That being said, it may take several quarters of resilient earnings for investor sentiment to turn in their favour. **Nuvei** was weak in the quarter after providing guidance below analyst expectations. The market is worried Nuvei will see a slowdown in transaction volumes in the event of a recession. While these concerns are justified, we believe the current valuation adequately compensates us for a slowing earnings scenario.

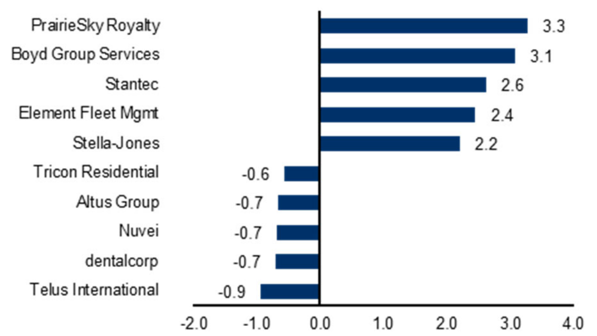
PH&N Small Float Fund
Portfolio Attribution and Structure as of June 30, 2023

Fund Characteristics	# of Holdings	Avg Market Cap (C$ billions)	Dividend Yield (%)
PH&N Small Float Fund	**31**	**4.6**	**1.4**
S&P/TSX Capped Composite Index	*229*	*59.6*	*3.2*

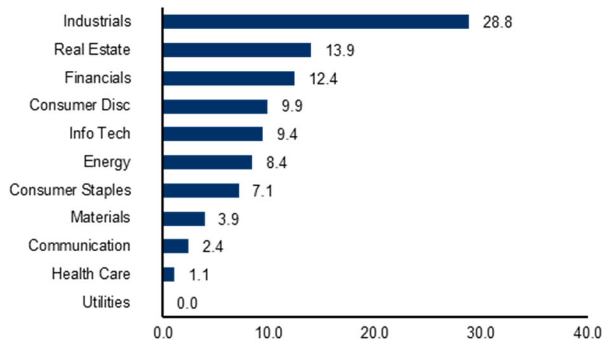
3 Month Attribution (%)



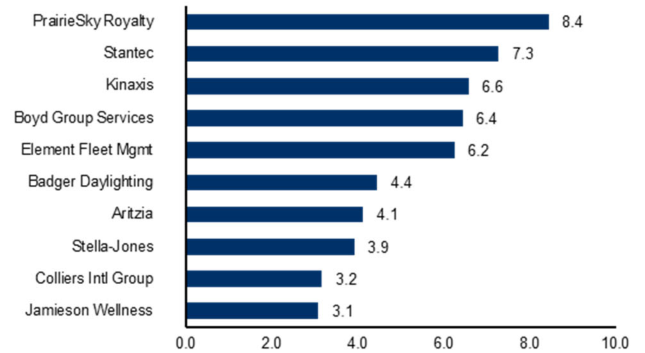
1 Year Attribution (%)



Sector Weights (%)



Top 10 Holdings (%)



RBC Global Equity Focus Fund

The RBC Global Equity Focus Fund returned 0.77% in the second quarter and 9.15% over the past year, underperforming its benchmark over both periods.

After a challenging 2022, global equity markets finished the first half of 2023 on a strong note. However, the vast majority of the market's overall gain were driven by only seven U.S. stocks (Microsoft, Alphabet, Amazon, Nvidia, Apple, Tesla, and Meta). In terms of sectors, Consumer Staples and Financials detracted most from relative returns, while Real Estate and Industrials were the largest contributors.

Four of the seven stocks highlighted above – in addition to **TSMC** – were among this quarter's largest contributors to returns: **Nvidia**, **Amazon**, **Microsoft**, and **Alphabet**. Beyond the recent enthusiasm surrounding AI and its potential use cases for both individuals and enterprises, these companies also possess a number of other attractive investment characteristics, including strong competitive advantages and high barriers to entry businesses. However, these positive contributions were largely offset by not owning Apple, Tesla, and Meta, which generated strong returns and are large benchmark weights.

The remainder of the underperformance can be attributed to a handful of positions that experienced short-term setbacks, including **MarketAxess**, **Anheuser-Busch InBev** (ABI), and **Estée Lauder**. Specifically, electronic bond trading platform MarketAxess gave back its gains from last quarter as trading volumes declined more than anticipated. ABI's share price declined following a controversial social media advertisement that led some consumers to boycott Bud Light and resulted in sharp decline in U.S. sales. Finally, shares of cosmetics and skincare company **Estée Lauder** declined after lowering its outlook for the remainder of 2023 owing to a materially slower recovery in Chinese and Korean travel retail.

We exited our position in **Danaher** – a successful long-term holding – as it reached our valuation target and redeployed the capital into **Thermo Fisher** (TMO), also a U.S. manufacturer of biopharmaceutical tools. We believe TMO has a more attractive valuation, is less dependent on acquisitions for earnings growth, and has emerged from the pandemic with an enhanced reputation for service. We also exited our position in **Incyte,** which has suffered some unfortunate R&D failures. Capital from the sale was used to initiate a position in **HCA Healthcare**, which is the largest hospital network in the U.S.

We also exited our position in full-service discount broker and wealth management platform **Charles Schwab**. Rapidly rising interest rates led to an increase in "cash sorting" headwinds (clients moving cash from lower yielding bank deposits into higher yielding money market funds). Additionally, we sold our position in Japanese electric motor manufacturer **Nidec**. The business has struggled to maintain its margin profile and has been unsuccessful with its CEO succession planning.

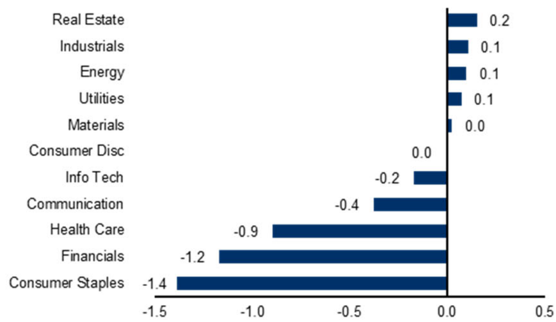
We initiated positions in enterprise software provider **Salesforce** and global streaming giant **Netflix**. Both companies have historically prioritized market share growth and have successfully established themselves as industry leaders. Finally, we also initiated a position in **Micron**. Beyond strong competitive dynamics, several positive catalysts have emerged for the memory and storage semiconductors company, such as product superiority over its strongest competitor (Samsung) and AI demand growth.

RBC Global Equity Focus Fund
Portfolio Attribution and Structure as of June 30, 2023

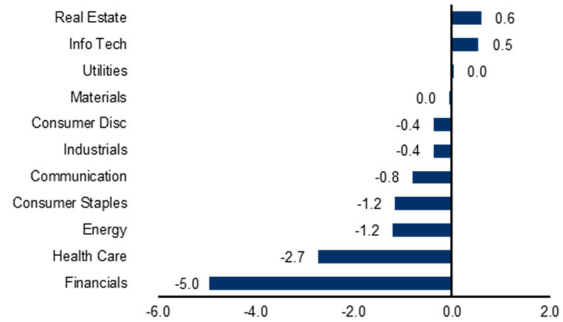
Fund Characteristics

	# of Holdings	Avg Market Cap (C$ billions)	Dividend Yield (%)
RBC Global Equity Focus Fund	**38**	**595.7**	**1.5**
MSCI World Net Index C$	*1512*	*627.3*	*2.0*

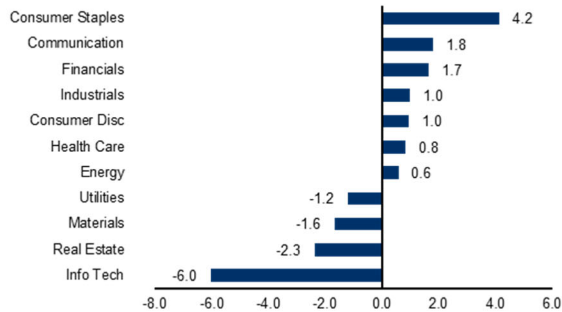
3 Month Attribution (%)



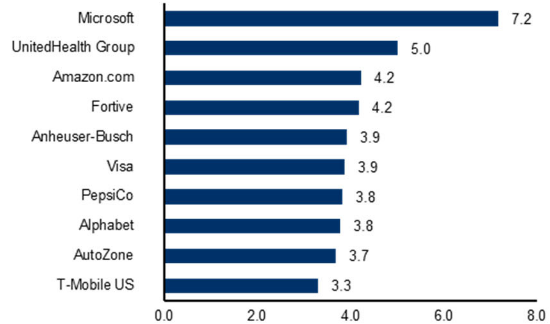
1 Year Attribution (%)



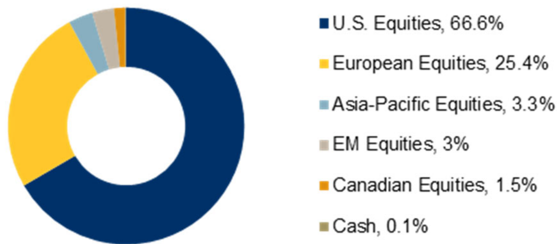
Sector Active Weights (%)



Top 10 Holdings (%)



Regional Breakdown (%)



RBC QUBE Global Equity Fund

The RBC QUBE Global Equity Fund returned 5.07% in the second quarter and 25.98% over the past year, outperforming its benchmark over both periods.

This quarter, positive performance from across a broad range of factors in our quantitative model led the portfolio to outperform its benchmark by 62 bps. Top contributors included Growth, Profitability, and Quality, while Technical (momentum) was the only detractor.

At the end of the quarter, the top seven stocks by market capitalization in the MSCI World Index (Apple, Microsoft, Alphabet, Amazon, NVIDIA, Tesla, and Meta) had a cumulative weight of 18%. All seven stocks were up sharply during May, leading to quarterly share price increases in the range of 13–49%. Overall, these stocks were also the top seven contributors to index performance, driving 3.28% of the MSCI World Index's 4.45% return.

Over the quarter, we were underweight five of these top seven stocks, with overweight positions in Apple and Meta; this led to stock-specific risk detracting more from the portfolio's relative performance than is typical but is not unexpected given the incredibly narrow market environment. While timing is uncertain, we do tend to see mean reversion occur after periods of increased concentration like this due to the other segments of the market catching up and/or investors taking profits from positions in these winners; in fact, a shift already began in June, resulting in strong outperformance to end the quarter.

In terms of sector attribution, our underweight allocation to the Health Care sector and overweight allocation to the Consumer Staples sector contributed the most to relative performance, while our overweight allocations to the Energy and Consumer Discretionary sectors were the largest detractors.

At an individual stock level, overweight allocations to technology company **Broadcom** and cybersecurity company **Palo Alto Networks** contributed the most to relative performance, while an overweight position in refiner **Marathon Petroleum** and underweight position in technology hardware manufacturer **NVIDIA** were the largest detractors.

We increased our position in **NVIDIA** from underweight to overweight. NVIDIA increased revenue guidance for its next quarter by more than 50% because of AI momentum. This resulted in the second largest single-day market cap gain in history and the largest ever seen outside of China. In our model, the stock saw a meaningful increase to its Analyst and Profitability scores, which prompted us to increase our position. Additionally, we initiated an overweight position in **Walmart** based on increases in the stock's Analyst, Quality, and Profitability scores.

We removed our overweight positions in **Coca-Cola** and **Banco Santander**. Coca-Cola reported a 12% year-over-year increase in organic sales for 1Q23, slightly lower than PepsiCo's at 14%, and guidance for the rest of the year remained unchanged. In terms of our model, the stock's Growth and Profitability scores declined modestly over the quarter. For Banco Santander, the stock's Analyst score deteriorated over the quarter. The company's recent results were mixed, with solid performance in Spain offset by weaker results in Portugal, the U.K., and the U.S.

RBC QUBE Global Equity Fund
Portfolio Attribution and Structure as of June 30, 2023

Fund Characteristics

	# of Holdings	Avg Market Cap (C$ billions)	Dividend Yield (%)
RBC QUBE Global Equity Fund	**117**	**582.9**	**1.8**
MSCI World Net Index C$	*1512*	*627.3*	*2.0*

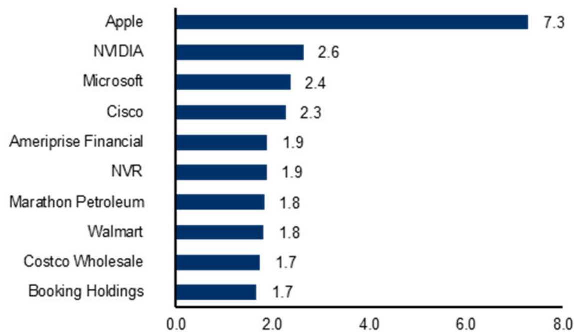
Factor Performance

	3 Mo	1 Yr
Security selection model	↑↑↑	↑↑↑
Profitability	↑	↑↑↑
Quality	↑	↑↑↑
Growth	↑	↑
Analyst	↑	↑↑↑
Value	↑	↑
Sentiment	-	↑
Technical	-	↓↓
Sector selection model	↓	↑↑↑
Country selection model	-	↓↓↓

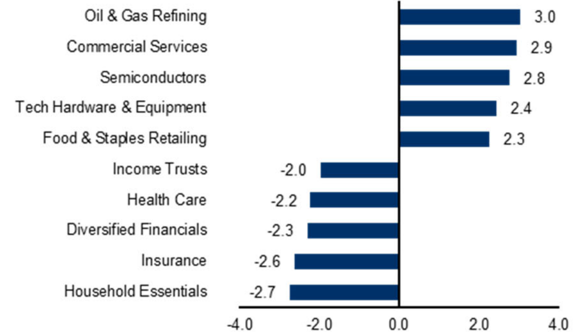
Illustrative Portfolio Metrics

	Fund	Benchmark
Forward Return on Equity (Profitability)	**43.7%**	*29.3%*
Forward P/E (Value)	**15.9x**	*17.8x*
Goodwill Growth (Quality)	**-0.2%**	*0.8%*
Free Cash Flow Growth (Growth)	**26.7%**	*2.4%*

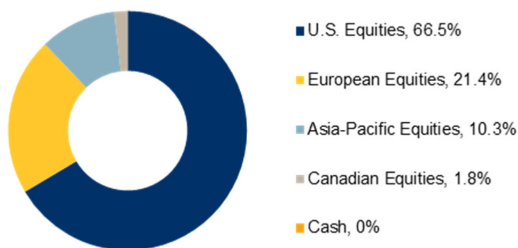
Top 10 Holdings (%)



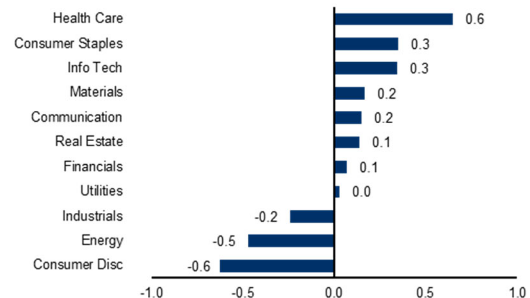
Largest iGICS Sector Active Weights (%)



Regional Breakdown (%)



3 Month Attribution (%)



RBC Global Equity Leaders Fund

The RBC Global Equity Leaders Fund returned 1.87% in the second quarter and 13.27% over the past year, underperforming its benchmark over both periods.

After a challenging 2022, global equity markets finished the first half of 2023 on a strong note. However, the vast majority of the market's overall gain were driven by seven stocks (Microsoft, Alphabet, Amazon, Nvidia, Apple, Tesla, and Meta). In terms of sectors, Consumer Staples and Financials detracted most from relative returns, while Materials and Utilities were the largest contributors to portfolio performance.

Four of the seven stocks highlighted above – in addition to **TSMC** – were among this quarter's largest contributors to returns: **Nvidia**, **Amazon**, **Microsoft**, and **Alphabet**. Beyond the recent enthusiasm surrounding AI and its potential use cases for both individuals and enterprises, these companies also possess a number of other attractive investment characteristics, including strong competitive advantages and high barriers to entry businesses. However, these positive contributions were largely offset by not owning Apple, Tesla, and Meta, which generated strong returns and are large benchmark weights.

The remainder of the underperformance can be attributed to select positions that experienced short-term setbacks, including **Anheuser-Busch InBev** (ABI), **T-Mobile**, and **Estée Lauder**. ABI's share price declined in response to a controversial social media advertisement that led some consumers to boycott Bud Light and resulted in sharp decline in U.S. sales. U.S. telecommunications company T-Mobile reported strong financial results, but its stock price came under pressure following rumours of Amazon considering offering mobile phone services to its Prime subscribers. Finally, shares of cosmetics and skincare company **Estée Lauder** declined after lowering its outlook for the remainder of the year.

We exited our position in **Danaher**, as it reached our valuation target, and redeployed the capital into **Thermo Fisher** (TMO), also a U.S. manufacturer of biopharmaceutical tools. We believe TMO has a more attractive valuation, is less dependent on acquisitions for earnings growth, and has emerged from the pandemic with an enhanced reputation for service. We also initiated a position in **HCA Healthcare** – the largest hospital network in the U.S., which provides the benefits of scale.

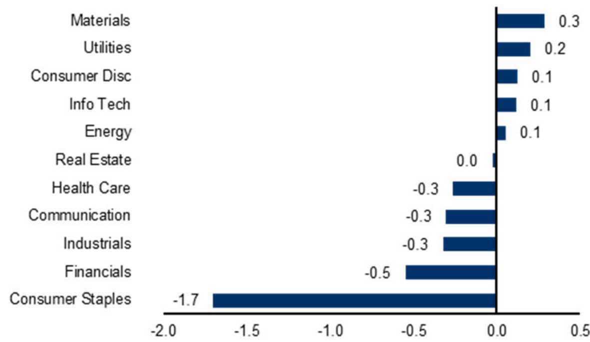
We also exited our position in full-service discount broker and wealth management platform **Charles Schwab**. Rapidly rising interest rates led to an increase in "cash sorting" headwinds (clients moving cash from lower yielding bank deposits into higher yielding money market funds), which is causing margin dilution. Additionally, we sold our position in Japanese electric motor manufacturer **Nidec**. The business has struggled to maintain its margin profile and has been unsuccessful with its CEO succession planning.

We initiated positions in enterprise software provider **Salesforce** and global streaming giant **Netflix**. Both companies have recent embarked on a strategic shift, with a focus on capital allocation, margins, profitability, and free cash flow. We believe this shift is underappreciated and will lend itself to compounding their share prices at attractive rates from here. Finally, we also initiated a position in **Micron**. Several positive catalysts have emerged for the memory and storage semiconductors company, such as product superiority over its strongest competitor (Samsung) and AI demand growth.

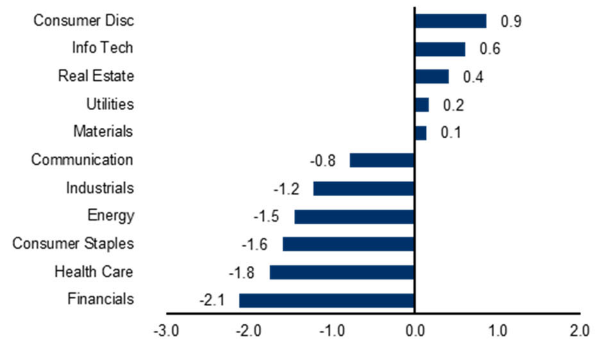
RBC Global Equity Leaders Fund
Portfolio Attribution and Structure as of June 30, 2023

Fund Characteristics	# of Holdings	Avg Market Cap (C$ billions)	Dividend Yield (%)
RBC Global Equity Leaders Fund	**29**	**649.5**	**1.7**
MSCI World Net Index C$	*1512*	*627.3*	*2.0*

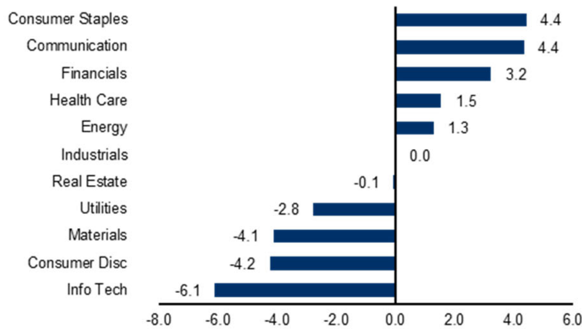
3 Month Attribution (%)



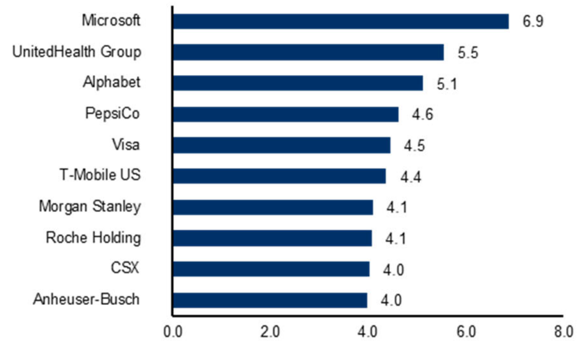
1 Year Attribution (%)



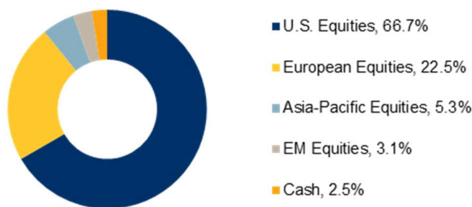
Sector Active Weights (%)



Top 10 Holdings (%)



Regional Breakdown (%)



RBC Emerging Markets Equity Fund

The RBC Emerging Markets Equity Fund returned 1.37% in the second quarter and 13.93% over the past year, outperforming its benchmark over both periods.

At the sector level, the strategy benefitted from notably strong stock selection in Consumer Staples and IT. Stock selection was positive across most sectors with the exception of Communication Services and Industrials, which marginally detracted. The underweight to Communication Services contributed to relative returns from a sector allocation standpoint, while the lack of exposure to Energy detracted.

At the country level, stock selection continued to be the primary driver of benchmark outperformance with notably strong selection in South Korea and Brazil. Positioning in India marginally detracted this quarter, after outperforming in Q1. The overweight position to India and underweight to China added to relative returns, while the lack of exposure to Saudi Arabia detracted from a top-down perspective.

At the company level, the portfolio's exposure to the Brazilian market through stock exchange owner **B3** and pharmacy retailer **Raia Drogsail** drove relative returns over the quarter. For B3, the share price strengthened due to improving trading activity. Raia Drogsail, Brazil's leading pharmacy chain operator, reported strong quarterly results in terms of revenue and earnings growth, as well as market share gains. The share price also benefitted from broader strength in the Brazilian market, which rebounded strongly.

Korean memory chip maker **SK Hynix** was the top contributor to relative returns, with its shares gaining over 25% in Q2. It is benefiting from the surge in optimism around the potential for AI memory given its position as the market leader in high-bandwidth memory and the number one supplier to Nvidia.

In a reversal from the previous quarter, India's leading tractor and auto brand **Mahindra and Mahindra** was a positive contributor in Q2. Company management continued to deliver strong results, with the delivery of the 100,000 unit of its flagship SUV model in less than 20 months.

Lastly, Mexican bottling giant and convenience store operator **FEMSA** continued its positive momentum into this quarter. The company sold its remaining Heineken stake as well as its stake in Jetro, a membership-based wholesale cash-and-carry foodservice supplier. This signals that the FEMSA is increasingly focusing on creating shareholder value by simplifying its operations.

Turning to detractors, several names in the Chinese market weighed on performance. **Yum China** and **Alibaba's** shares underperformed in a challenging economic backdrop and weak consumer confidence. Solar energy product maker **Longi Green Energy** was also weak, with polysilicon prices continuing to fall from 2022 highs and investor sentiment weakening amid concerns regarding margin compression, increasing competition from other producers, and potential commoditization of the business.

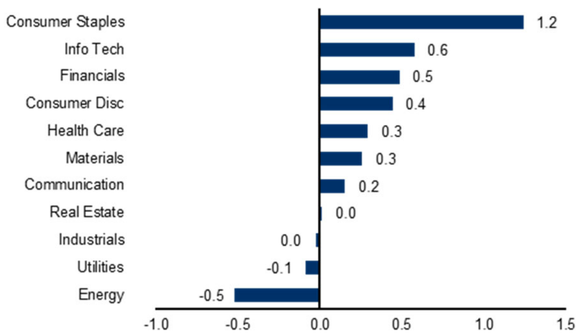
Sticking with China's slow economic recovery, the Hong Kong Stock Exchange **HKEX** was also a detractor in the quarter. Additionally, HKEX's share price was pressured by ongoing concerns regarding geopolitical tensions, lower trading volumes in the first half of the year, and a decline in IPO activity.

Finally, not owning South Korean index heavyweight **Samsung** detracted from relative returns.

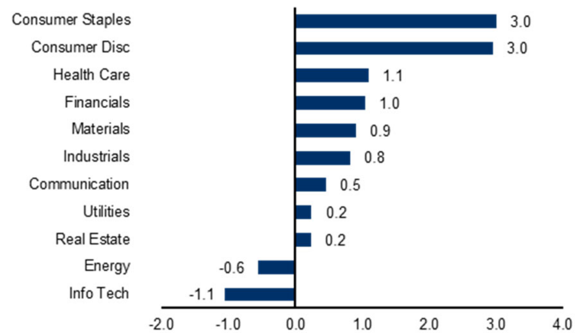
RBC Emerging Markets Equity Fund
Portfolio Attribution and Structure as of June 30, 2023

Fund Characteristics	# of Holdings	Avg Market Cap (C$ billions)	Dividend Yield (%)
RBC Emerging Markets Equity Fund	**48**	**127.2**	**2.2**
MSCI Emerging Markets Net Index C$	*1423*	*144.1*	*3.3*

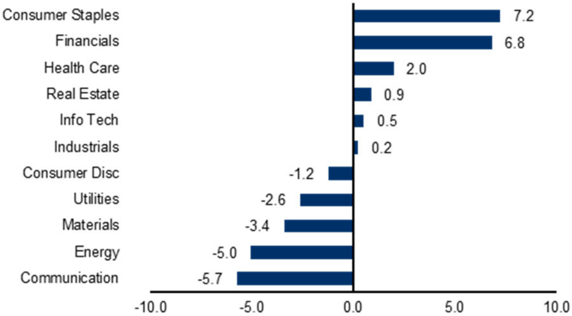
3 Month Attribution (%)



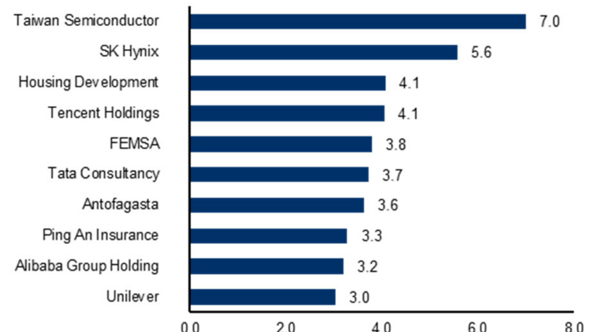
1 Year Attribution (%)



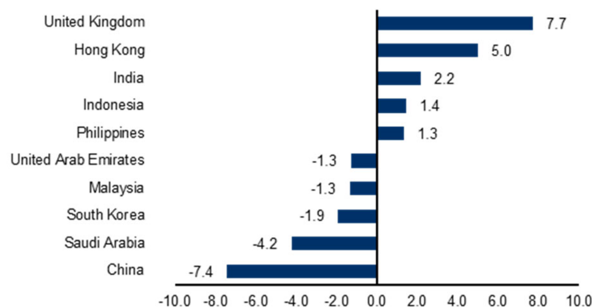
Sector Active Weights (%)



Top 10 Holdings (%)



Top Five/Bottom Five Country Active Weights (%)



* UK exposure includes the EMEF's position in Unilever and two EM companies that are listed on the London Stock Exchange (Antofagasta and Mondi)