



Understanding distributions from RBC Target Maturity Corporate Bond ETFs

RBC Target Maturity Corporate Bond ETFs (RBC TMCB ETFs) represent an innovation in the landscape of the rapidly growing ETF market. A unique and important feature of the RBC TMCB ETF structure is that they are designed to allow investors to determine with a fair degree of accuracy their expected yield to maturity (YTM).

Having a known YTM allows an investor purchasing an RBC TMCB ETF to be confident in knowing their total expected annualized return from their date of purchase through to the ETF maturity date. While this is a feature similar to an individual bond, there are differences in the way cash flows are paid out between these two investment options. Individual bonds make regular fixed coupon payments and a fixed payment at maturity (the maturity or par value). RBC TMCB ETF payments are comprised of monthly distributions and a similar payout at maturity, but unlike an individual bond these payments may fluctuate due to:

1. The differences in monthly distributions from a bond portfolio (e.g. ETFs) vs. fixed coupon payments from an individual bond.
2. The addition of new issues to the index (and therefore tracked by the ETF).
3. The methodology for winding down the ETF in the year of its maturity.

The following looks at each of these three factors and how they can cause cash distributions to fluctuate throughout the term of RBC TMCB ETFs without affecting the total return ultimately received by the investor.

Cash flows from bond portfolios vs. individual bonds

While an individual bond fixes the timing and amount of the coupon payments and maturity payout date, a bond portfolio such as an ETF which holds multiple bonds will have multiple fixed coupon payment dates and maturity dates. Depending on when these dates occur, the ETF's distributions from month to month throughout the year can differ. For example, if the majority of bonds within the portfolio happen to make their coupon payments in June and December, the monthly distributions following these two months could be higher than the other ten monthly distributions.

Why rebalance the index?

The index is designed to track the broad corporate bond market and provide the full breadth of its diversity. If a new bond is issued or one is upgraded that meets the inclusion criteria of the index, it will be added at the next designated rebalancing period. This increases diversification. The index is also designed to maintain a minimum credit quality and risk profile: no more than 25% of the index can be rated BBB, no individual bond rating can be below investment grade (BBB-) and no single issuer can make up more than 10% of the total portfolio. If any of these criteria are not met, the index will rebalance at the designated six month interval by adjusting the weight of the appropriate bond or bonds.

DEFINING CURRENT YIELD AND YIELD TO MATURITY

Current yield is calculated by dividing the bond's annual interest payment by its purchase price.

Yield to maturity (YTM) – when a bond is purchased, there is a specific YTM associated with the purchase price and this represents the total annualized return investors can anticipate receiving by holding that instrument to maturity. The YTM calculation assumes that interest payments are reinvested at the same rate as the current yield on the bond. In certain situations, however, market conditions may make this assumption difficult to accomplish. YTM encompasses two factors:

1. The fixed coupon payment that is received annually – usually in two semi-annual installments – until maturity.
2. The gain or loss realized upon bond maturity. This represents the difference between the purchase price paid by the investor and the par value of the bond.

It is important to note that the current yield and YTM do not necessarily go hand in hand. A group of bonds may all have the same YTM but different current yields and vice versa.

Rebalancing must also assess the index's YTM pre- and post- the rebalance. For example, if a bond with a lower YTM is eligible for addition to the index, its full position may not be added to the index, or the index may need to increase its allocation to a bond already in the index with a higher YTM in order to offset any impact. This innovative proprietary process results in a consistent YTM.

How a rebalance can cause cash flows to fluctuate

Rebalancing can cause changes to both the monthly distribution amount and the maturity value of the ETF. This occurs if a bond or combination of bonds being added, reweighted and/or removed during rebalancing have a different current yield than the overall ETF.

For example, if a bond with a higher current yield than the ETF is added to the portfolio, three things will happen:

1. The average current yield of the ETF will increase.
2. Future monthly distributions will increase to reflect this higher current yield.

3. The maturity value (final payout) of the ETF will decline by an offsetting value.

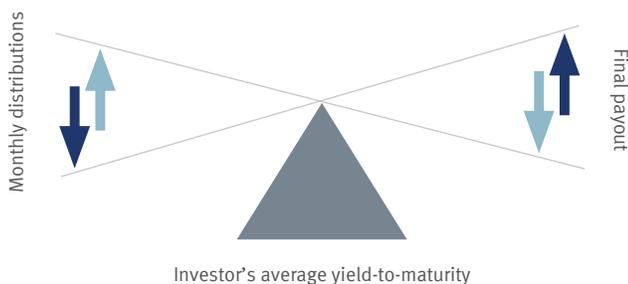
However, regardless of the cash flow adjustments, the investor will still receive the same average YTM (total annualized return) if the ETF is held to maturity. This is because of the rebalancing process utilized by the RBC TMCB ETFs. The chart and table below illustrate how higher/lower distributions will result in a lower/higher maturity value – yet the same return to the investor.

Distributions in the maturity year

As the ETF nears its maturity date and bonds in the portfolio mature, the proceeds are generally reinvested in cash or cash equivalent securities earning prevailing short-term interest rates until the ETF matures and the proceeds are distributed to unitholders. For this reason, the ETF's monthly distributions will change, and returns in its final year will closely reflect prevailing money market yields.

RBC ETFs also offer investors broad diversification, professional oversight, flexibility, ease of liquidity and transparency in a low cost, tax-efficient investment solution.

Yield to maturity dynamics



Any increase/decrease in monthly distributions is generally offset by a corresponding decrease/increase in the maturity value, such that the anticipated YTM remains relatively constant.

YTM remains stable despite changes in ETF distributions and maturity value

	Scenario 1: Unchanged distributions	Scenario 2: Rising distributions	Scenario 3: Falling distributions
Fund	(\$10.00)	(\$10.00)	(\$10.00)
Year 1 distributions	\$0.20	\$0.20	\$0.20
Year 2 distributions	\$0.20	\$0.22	\$0.18
Year 3 distributions	\$0.20	\$0.24	\$0.16
Year 4 distributions	\$0.20	\$0.26	\$0.14
Year 5 distributions	\$0.20	\$0.30	\$0.10
Maturity value	\$10.00	\$9.74	\$10.24
YTM	2.00%	2.00%	2.00%

To find out more about RBC ETFs visit www.rbcgam.com/etfs or call 1-855-RBC-ETFS (1-855-722-3837).

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