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Reflections on Year One

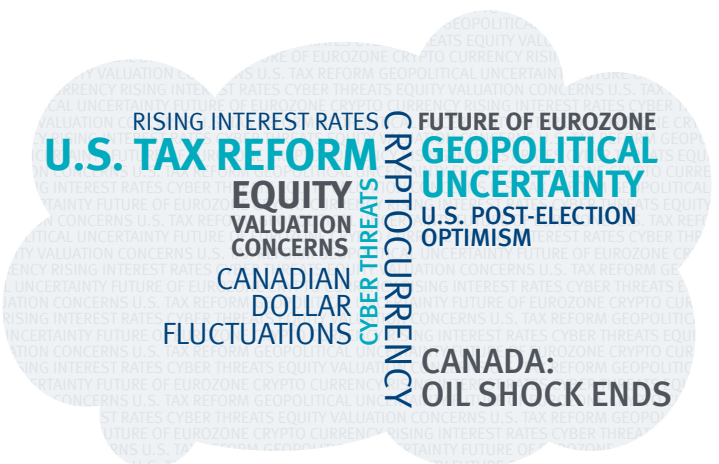
October marked the one-year anniversary of the RBC Retirement Portfolios

While it's early in the lifespan of a solution set designed to see you to – and through – retirement, we thought we'd pause to reflect on the first 12 months of RBC Retirement Portfolios. As you know, this suite of eight portfolios is built around a unique investment timeline that gradually reduces risk as you progress toward retirement. Then, for those of you who are already retired, RBC Retirement Income Solution works to sustain your retirement cash flow with a conservative mix of fixed income and equities.

Never a dull moment: Keeping you on track through increasingly complex markets

The past year was certainly an eventful one. Whether it was U.S. politics, NAFTA negotiations or heightened geo-political concerns, the markets – and investors – had plenty to digest. This raises the question of how your portfolio responded, if at all, to the seemingly inexhaustible list of news items.

Starting with their construction process, RBC Retirement Portfolios travel along an investment timeline that keeps your retirement date in mind. At their core, the Portfolios come with a built-in mechanism for reducing risk as your retirement date approaches. That isn't to say there is no opportunity to make tactical decisions (adjusting the asset mix in light of market conditions) if we believe there is reason to do so.



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Sticking to fundamental principles helps steer clear of troubled waters

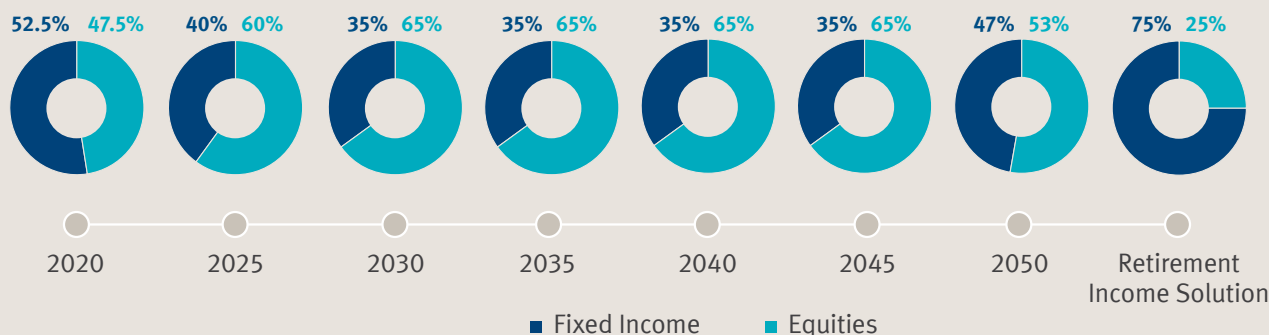
While headlines continue to tell the stories of world events, we're looking at what those world events could mean for the investments in your RBC Retirement Portfolio. An important input into our decision-making process is valuations – what an investment is priced at relative to our assessment of what it is worth – and this is a key driver of tactical change. A composite of proprietary valuation models informs our view on whether to increase or decrease exposure to equities relative to their target weighting along the investment timeline. A reading that suggests a market is overvalued (expensive) might prompt us to reduce exposure to that market while we might be investing more in a market that is identified as being undervalued (inexpensive).

Demystifying Valuation Metrics		
What valuation models might be signaling	Assessment of market indicators	Potential tactical change
Stock prices are expensive relative to valuation models	Overvalue	Decrease in equity allocation
Market indicators are neutral	Fair Value	Continue assessing valuation models
Stock prices are low relative to valuation models	Undervalue	Increase in equity allocation

In a year filled with market disruptions, one might have expected the valuation models to signal adjustments to the asset mix. However, all signals pointed to the portfolios being well positioned for the current environment and there were no tactical adjustments implemented in 2017.

Whether you are starting to save for retirement, almost there, or drawing cash flow from your portfolio, we regularly review and manage your investment timeline every step of the way. While we can never be sure exactly what the New Year will bring, we'll continue to prudently evaluate changes to the asset mix in light of current valuations and our market outlook.

Current target asset mix* for each RBC Retirement Portfolio:








*As of December 31, 2017.

The human element of investing

Investors today are faced with ever-changing market conditions, an often overwhelming amount of information and an increasing number of investment choices. With such complexity, it can be difficult to stay on track, and making sometimes hasty decisions can negatively affect long-term returns. Having decided to invest in RBC Retirement Portfolios, you can be confident in an investment process that has been refined over three decades to prudently make decisions with your investment objectives in mind - and to avoid the negative effects of emotional investing.

Mitigating behavioral pitfalls

When it comes to investing, the most common behavioral pitfalls fall into two categories - cognitive errors, which stem from faulty reasoning, and emotional errors, where feelings influence decisions. In RBC Retirement Portfolios, these are offset by various elements of our investment management process.

Common investing behaviour pitfalls		Prudent investment decision-making in your RBC Retirement Portfolio	
Cognitive	<p>Conservatism Placing more weight on initial beliefs and not reacting to new information.</p> <p>Availability Using a “general rule” approach rather than adequately assessing a situation.</p>	 <p>Disciplined investment process A top-down and bottom-up approach to portfolio construction and management contributes to the right asset mix and security selection.</p>	 <p>Professional management The collection of funds is designed to leverage the expertise and experience of the entire management team.</p>
	<p>Loss-aversion Losses are felt or noticed more than gains, which leads to selling winners and holding losers.</p> <p>Regret-aversion Swayed by avoiding the pain of regret associated with bad decisions.</p>	 <p>Diversification The portfolio is allocated across various asset classes and is further diversified across geographic regions, industries and companies.</p>  <p>Tactical asset allocation As markets change, the tactical asset mix of a portfolio is revisited to ensure it is appropriately aligned with current and future conditions.</p>  <p>Ongoing monitoring Daily oversight ensures a sound portfolio that does not drift from intended risk/return objectives.</p>	



Portfolio Manager viewpoint

Sarah Riopelle, CFA, Vice President & Senior Portfolio Manager, Investment Solutions

The global economy is running at its fastest clip in seven years supported by an increasingly broad-based expansion, favourable financial conditions and a strong sense of optimism. We are mindful of potential risks relating to the aging business cycle, protectionism and precarious international relations, but we see the balance of risks and opportunities tilting towards continued economic expansion. Against this backdrop, central banks are likely to continue tightening monetary policy and we expect bond yields to drift higher, acting as a headwind to fixed-income returns. Compared to bonds, stocks offer superior total-return potential but, given fuller valuations, further gains will be paced by corporate profit growth. Earnings growth has been strong and corporate tax cuts in the U.S. could provide a further boost. We maintain our moderate overweight in stocks and underweight in fixed income.

What happened in world markets last quarter



Fixed income

Major fixed-income markets were mixed, with the U.S. and Japan down slightly and Europe up amid subdued inflation and modest economic growth. The reaction of central banks to accelerating global economic growth is the most important factor currently affecting fixed-income markets. Investors are optimistic that central banks can tighten monetary policy without jeopardizing economic growth. In its continued effort to reduce monetary stimulus, the U.S. Federal Reserve raised interest rates by a quarter-percent in December 2017. This was the third rate hike in 2017 alone with three additional hikes expected in 2018. This quarter, the FTSE TMX Canada Universe Bond Index added 2.0%, while the Citigroup World Government Bond Index US\$ (US\$ hedged) edged up 0.7%.



Canadian equities

Canadian stocks rose in the most recent quarter, but remain one of the worst-performing developed markets in 2017. The Canadian index was held back by the Energy sector, appreciation in the Canadian dollar and concern that the economy lacks a growth driver for the slowing housing market. Market sentiment continues to be hurt by looming uncertainty about NAFTA, as the U.S. has taken a tougher-than-anticipated stance in negotiations. The S&P/TSX Composite gained 4.5% in the quarter.



U.S. equities

The U.S. stock market soared on strong economic fundamentals and stimulative policy announcements out of Washington. The Financials, Information Technology, Energy and Materials sectors delivered solid returns. Overall performance was strong as a result of the continuing global economic expansion, still-accommodative global central-bank interest-rate policy and low market interest rates and inflation, which drove better-than-expected financial performance for most U.S. companies. Improving possibilities of tax reform also helped to lift investor confidence. The S&P 500 rose 7.4% this quarter.



International equities

Global equities surged during the quarter as strengthening economic growth around the world drove earnings and returns higher, especially in the Energy, Information Technology and Financials sectors. Asia-Pacific markets rallied in the period, adding to the strong year-to-date gains that have propelled the region's indexes to a leadership position in global equity performance. China was again the biggest outperformer as stabilizing economic indicators and rising corporate-earnings expectations improved investor confidence. The MSCI EAFE Index finished up 4.5% and the MSCI Emerging Markets Index added 7.7% in the quarter.

All returns are in C\$ except where indicated. Canadian, U.S., MSCI EAFE and MSCI Emerging Markets index returns are total returns.

We thank you for your ongoing trust in continuing to hold RBC Retirement Portfolios as part of your investment plan. If you have any questions or comments, please contact us or your advisor.

1-800-463-3863 | funds.investments@rbc.com | rbcgam.com |  @rbcgamnews |  RBC Global Asset Management

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