RBC Life Science & Technology Fund

Commentary as at December 31, 2023

Of the Fund's three investment segments, equity markets were led during the period by Communications Services and Information Technology, while Health Care underperformed. The technology sectors significantly outperformed the broad stock market in 2023, as a small number of companies linked to advances in artificial intelligence ("AI") significantly supported returns, and valuations were supported by expectations late in the year that interest rates would come down significantly. The Health Care sector underperformed given stock declines in several providers of pharmaceuticals and medical diagnostics including Pfizer and Danaher.

The Fund outperformed its benchmark because of stock selection. In the Information Technology sector, exposure to the software companies Adobe and Palo Alto Networks had a positive impact on relative returns. In the Communication Services sector, an underweight position in Disney and overweight allocation to Meta Platforms aided performance. Meta benefited from cost-cutting, a recovery in ad spending, and speculation that it would be among the beneficiaries of AI. In the Health Care sector, returns were limited by higher exposure to Humana, whose earnings were hurt by rising costs, offset by the positive impact of below-benchmark exposure to Pfizer.

The Fund's overweight position in the Communications Services sector and preference for Information Technology over Health Care, contributed to relative performance. In the Information Technology sector, Visa and several other payment processors in the Fund had a negative impact on relative performance. In March, payment processors were removed from the Fund's benchmark and stocks in the industry subsequently underperformed significantly. Their retention in the Fund therefore was negative for returns. An underweight allocation to semiconductors also had a negative impact on the Fund's relative returns.

Valuations for the Information Technology and Communications Services sectors in early 2024 are relatively high, but, in the view of the portfolio manager, the outlook remains strong. Many companies in these sectors have reduced costs significantly and, as a result, more of their revenues should filter through to the bottom line. Any declines in interest rates would also tend to benefit technology valuations. The biggest risk for technology companies would be the onset of a recession.

In the Health Care sector, the portfolio manager believes that the outlook for companies in biotechnology and medical equipment is brightening, in part due to the potential for a surge in mergers and acquisitions. New-drug pricing regulations and an uncertain outlook for new-product pipelines could continue to weigh on stocks of pharmaceutical companies in 2024.

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