

# RBC Life Science and Technology Fund



## Commentary as at June 30, 2024

Two of the Fund's three main investing areas, the Information Technology and Communication Services sectors, outperformed the broader stock market during the first half of 2024. Advances in artificial intelligence ("AI") continued to drive exceptional returns for the "Magnificent 7" - the world's largest companies in terms of market capitalization including Nvidia, Microsoft and Apple. Computer-hardware and semiconductor companies also performed well as they benefited from high levels of demand due to the build-out of AI data centres. Anticipation that interest rates would be coming down also helped fuel some of the gains, as fast-growing companies tend to be particularly sensitive to changes in rates.

The Fund's underweight position in the Information Technology sector had a negative impact on relative returns, while an underweight in Health Care sector had a slightly positive impact. Partially offsetting the negative impact of sector positioning was strong stock selection in the Information Technology and Health Care sectors.

Relative returns were held back in the Information Technology sector by an underweight position in strongly performing semiconductor stocks. The portfolio's holdings in the Health Care sector underperformed overall due to the weakness in managed-care stocks and shares of companies that specialize in medical tools and diagnostics. Software stocks performed less well as companies shifted technology spending to AI at the expense of software. Visa and Mastercard also hurt relative performance as technology stocks tied to finance could not keep up with sectors more directly linked to technology. Pure Storage was a notable contributor to the Fund's relative returns given rising demand for storage of both AI and non-AI workloads.

While macroeconomic risks could have a near-term influence on performance, valuations for the average technology company remain reasonable in the view of the portfolio manager. Geopolitical risks are an important factor to monitor given the global nature of technology supply chains. Longer-term trends supporting technology, including digitization and AI, remain on track.

The portfolio manager believes the future of the Health Care sector remains bright given the aging population and technological advances. In the near term, there are risks in the form of efforts to hold down increases in new-drug prices and reduced government funding for some public health-insurance plans. However, valuations are fair given the outlook for robust returns in the sector.

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