RBC Vision Canadian Equity Fund

Commentary as at December 31, 2022

Canadian and U.S. stocks tumbled in 2022, fueled by the highest inflation in decades and the concurrent rise in interest rates. Stocks came under pressure after the U.S. Federal Reserve and the Bank of Canada responded to inflation – the fastest in 40 years – with a vow to stamp it out with successive interest-rate hikes. Interest-rate-sensitive stocks were hurt most, resulting in a sell-off in the Information Technology sector in both markets. Meanwhile, a surge in energy prices helped cushion market returns in Canada, which outperformed most other major markets during the year. The drop in the S&P 500 Index was the worst since 2008 – the year of the financial crisis – but only since 2018 for the Canadian benchmark.

The Fund's relative exposure to Cenovus Energy, Element Fleet Management and PrairieSky Royalty had the most positive impact on the Fund's returns, while exposure to Pembina Pipeline, Alimentation Couche-Tard and Brookfield Corp. was negative for performance.

The sectors that had the most positive impact on the Fund's returns were Financials, Communication Services and Consumer Discretionary, while exposure to Consumer Staples, Real Estate and Industrials had a negative impact.

The Fund had overweight positions in Manulife Financial, Rogers Communications and Brookfield Corp. and underweight positions in Barrick Gold, BCE and Alimentation Couche-Tard.

Barrick Gold and Alimentation Couche-Tard are excluded from the investment universe based on the ESG exclusion criteria.

At the sector level, the Fund had overweight exposure to Financials, Industrials and Information Technology and underweight exposure to Consumer Staples, Materials and Utilities.

Uncertainty is elevated and there is a wide range of potential outcomes for the economy and financial markets. The good news for investors is that stocks are now much more reasonably priced than they were at the start of the year. While valuation risk has diminished and long-term return potential has increased, stock prices could still fall in the event that we enter a recession and earnings decline. In the current environment, stock gains could be limited in the near term absent evidence that the economy is cooling adequately to bring down inflation while avoiding a recession.

During 2022, one issuer was deemed ineligible by Sustainalytics and subsequently removed from the Fund for failing to meet the Fund's ESG exclusion criteria. In this instance, Lassonde Industries, Inc. was divested from the Fund because the issuer had poor ESG performance relative to its industry peers under the Fund's Relative Scoring criteria. Specifically, the issuer's overall level of unmanaged ESG risk, as measured by Sustainalytics' ESG Risk Rating, was considered 'severe', and ranked in the bottom quartile compared with its industry peers, as defined by Sustainalytics. This stemmed from the lack of ESG-related disclosure published by the company, which Sustainalytics considered inadequate compared with the issuer's peers. No other material investment decision was made based on the ESG exclusion criteria in 2022. In the opinion of Sustainalytics and RBC GAM, all other holdings in the Fund were eligible at the time of review.