

RBC Vision Fossil Fuel Free Balanced Fund



Commentary as at December 31, 2025

The global economy and financial markets largely withstood the impact of new U.S. trade barriers, as the positive impact of government stimulus and artificial intelligence (“AI”) on growth underpinned returns for the year as a whole. The announcement of higher tariffs in the first half of 2025 produced a temporary plunge in stocks and corporate bonds on concern that U.S. policy would curtail global growth. However, trade deals proved less punitive than had been feared, many central banks cut interest rates, and more companies began to benefit from the cost savings offered by AI. The global expansion was also bolstered by capital expenditures related to building out the infrastructure required for AI, especially in the U.S. and China.

The Fund’s overweight position in equities and underweight position in fixed income had a positive impact on performance. Canadian bonds rose for a third straight year as central banks extended interest-rate cuts amid a slowdown in domestic economic growth. The Bank of Canada (the “BOC”) lowered its benchmark interest rate by 1 percentage point to 2.25% in 2025, aiming to shield the weak economy from the threat of higher U.S. tariffs. The BOC also signalled that it had completed its current round of interest-rate reductions, leaving government spending to support the economic expansion. Investors were increasingly concerned about the outcome of next year’s renegotiation of Canada’s trade pact with the U.S. and Mexico, fearing that failure to reach a deal could exacerbate current economic strains. The U.S. Federal Reserve (the “Fed”) cut its benchmark interest rate by 0.75 percentage point in stages over the second half of 2025, bringing the benchmark rate down to a range of 3.50% to 3.75%. These rate reductions were aimed at stimulating growth and supporting a softening labour market. In December, the Fed announced an end to its bond-selling program to support the U.S. banking system and Treasuries. U.S. bonds outperformed their Canadian counterparts given expectations that the Fed would continue to reduce rates while the BOC stayed on hold. Returns in the fixed-income segment of the portfolio were boosted by RBC Vision Fossil Fuel Free Bond Fund and RBC Vision Fossil Fuel Free Short Term Bond Fund.

Following a volatile start to 2025, equity markets ultimately found their footing and rewarded investors with strong returns in most major markets. In the U.S., equities were driven by AI and continued technological advances that led to increased investment in data centres, semiconductors and energy farms. Canadian stocks outperformed most major international indexes, led by gains in shares of precious-metals companies and financial firms. Gold producers as a group more than doubled, with bullion surging to records exceeding US\$4,300 during the period, due to geopolitical crises, concern about the independence of the Fed and U.S.-dollar weakness. Many European markets also hit record highs as the rise in the euro and significantly enhanced defence spending enabled regional stocks to outperform in Canadian- and U.S.-dollar terms. Emerging-market stocks recorded significant gains in 2025, beating developed markets for the first time in five years as the U.S. dollar weakened and Chinese equities rebounded from poor relative performance since the pandemic. Returns were bolstered by RBC Vision Fossil Fuel Free Global Equity Fund and RBC Vision Fossil Fuel Free Emerging Markets Equity Fund.

Economic growth should accelerate moderately in the year ahead, in the view of the portfolio manager, and may pleasantly surprise relative to consensus expectations. Tariff headwinds should fade, and important tailwinds are set to blow. Inflation may not fall by quite as much as consensus expectations for 2026 but should slowly ease after peaking in the spring. An environment of moderate economic growth should allow inflation to subside sufficiently for continued interest-rate cuts by the Fed and foster strong corporate profit growth. Stocks are expected to continue outperforming bonds, but the portfolio manager recognizes that the potential for outsized gains has diminished following this year’s strong performance that

pushed some valuations to extreme levels. Against this backdrop, sovereign bonds should deliver cash-like returns and offer ballast against equity-market volatility should the economy disappoint. Accordingly, the portfolio manager reduced the Fund's equity overweight by 1 percentage point late in 2025 and placed proceeds in cash. The portfolio manager also modified regional equity allocations by increasing U.S. equity exposure, acknowledging that strong momentum in mega-cap technology stocks could persist. However, the Fund remains underweight U.S. equities given their relatively high valuations and overweight international equities given their relatively appealing valuations.

During 2025, one issuer, OMERS Realty Corp., was deemed ineligible by Sustainalytics for failing to meet the ESG exclusion criteria in RBC Vision Fossil Fuel Free Bond Fund, an underlying fund of the Fund. Sustainalytics cited that the issuer was ineligible due to the issuer's parent company, OMERS Administration Corporation, deriving fossil fuel revenues above the ESG exclusion criteria revenue thresholds through its infrastructure portfolio. Sustainalytics does not research OMERS Realty Corp. as a separate entity from its parent company.

After further research, RBC GAM determined that OMERS Realty Corp. had separate and distinct activities from OMERS Administration Corporation's infrastructure portfolio and OMERS Realty Corp. did not derive revenues from fossil fuel related activities. OMERS Realty Corp. is OMERS' primary vehicle for investing in Canadian real estate assets and RBC GAM determined that it would be in the best interest of RBC Vision Fossil Fuel Free Bond Fund to invest in the issuer. As a result, RBC GAM departed from the exclusion list provided by Sustainalytics and considered the issuer to be eligible for investment.

No other material investment decision was made based on the ESG exclusion criteria during 2025. In the opinion of Sustainalytics and RBC GAM, all other holdings in the Fund were eligible at the time of review.

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