

RBC Asia Pacific ex-Japan Equity Fund



Commentary as at December 31, 2022

Asian equities excluding Japan registered declines in 2022, primarily because of weakness in the Chinese, Taiwanese and South Korean markets, which together account for about half of the Fund's benchmark. China's adherence to harsh COVID restrictions until November was responsible for weak economic growth and made Chinese stocks among the weakest performers during the year. Taiwanese and South Korean markets were hurt by falling prices for memory chips and semiconductors amid weak global demand. Indonesia, benefiting from higher commodity prices, and India, with a strong domestic economy, were notable outperformers within Asia.

Sector allocation had a negative impact on the Fund's relative returns due to the portfolio's underweight position in the Materials sector and underweight allocation to Financials. The negative impact of these allocations was offset somewhat by the positive impact of a below-benchmark allocation to the Real Estate sector. Returns were also aided by strong security selection in the Consumer Staples and Energy sectors, offset by weaker security selection in Consumer Discretionary.

The top individual contributors to the Fund's performance over the period were Whitehaven, an Australian coal producer; Varun beverages, which produces, bottles and distributes PepsiCo's beverages in India; and Bharti Airtel, a leading Indian telecommunications company. The stocks that had the most negative impact on returns were Bii Biosciences, a Chinese biotechnology company that develops therapies for infection diseases, and Shenzhou International, a Chinese clothing manufacturer with customers including Nike, Adidas and Uniqlo.

The sub-advisor expects China's gradual re-opening to be completed only in mid-2023. As a result, the Chinese economy will be weak in the first half of 2023 given an expected spike in deaths and COVID cases, followed by a consumption-driven rebound in the second half of the year. The sub-advisor expects that Australia's economic growth will slow to 1.8% in 2023, below both the 4% rate expected for 2022 and the 2.75% trend. The downshift is due to higher interest rates, which will hold back construction, and a drop in commodity prices, which account for a significant portion of the country's economy. India's GDP growth will moderate from 8% in 2022 to 6.5% in 2023, but this rate remains the fastest growing large economy. Continued expansion in consumption and government expenditures are expected to support growth.

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