



RBC Funds (Lux) - Global Precious Metals Fund – Fourth Quarter 2011 Commentary

In the fourth quarter of 2011, the RBC Funds (Lux) – Global Precious Metals Fund, Class O (the “fund”) fell 5.2%, outperforming the 6.4% decline for the S&P/TSX Global Gold Index.

Rio Alto Mining and Sabina Gold & Silver Corporation were two small-cap holdings that performed well during the quarter. Rio Alto owns a good quality, low cost mine in Peru that has expanded its ore mining production to 24,000 tonnes per day, with further expansion plans in 2012. Production was delayed due to an illegal blockade of the mine in September, but the issue was resolved and the firm was still able to meet the low end of its 2011 production guidance. This good news helped push the share price 24% higher during the quarter. Sabina Gold & Silver rose over 30% during the quarter after announcing successful drill results and increased resource estimates at its project in northern Canada.

The fund also benefited from not holding Agnico-Eagle Mines, a Canadian gold producer that accounts for over 3.5% of the benchmark. Agnico’s shares dropped about 40% after the company announced it was suspending operations at its Goldex mine in Quebec due to water inflow problems and ground stability issues. Iamgold is another benchmark constituent that declined 20% but was not a holding in the fund.

Gold stocks broadly underperformed gold bullion in 2011. The most common reason cited for the underperformance of gold stocks is that most investors simply doubt the sustainability of the rapid increase in the gold price over the last two years. Despite an average 19.5% annual increase over the last 10 years, we believe that market participants simply need time to digest the rapid gains in the price of gold.

We believe that there is also the prospect of higher gold prices going forward. Gold tends to do well in a low interest rate environment as the opportunity cost of holding gold versus an income generating investment is lower. Concerns over rising fiscal deficits and the stability of the eurozone are also expected to continue to support gold prices. Finally demand for gold from investors, central banks and jewellery buyers appears to be another tailwind that could push the price of gold higher.

Many investors have a view that the profitability of gold companies has not kept up with the rate of increase in the gold price. From our perspective, while there have been significant capital and operating cost increases, the margins of gold companies have increased relatively in line with gold price increases. Simplistically, as mentioned previously, gold has increased an average of 19.5% per year since 2001, while the cash flow per share of Barrick Gold has increased 16% per year – a comparable figure.



Important Information:

This information is intended for Professional Investor use only. Not for public distribution.

RBC Funds (Lux) is an open-ended investment company incorporated under the laws of the Grand Duchy of Luxembourg (société d'investissement à capital variable or "SICAV") and qualifies as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under Article 1(2) of the EC Directive 85/611 of December 20, 1985, as amended (the "Directive 85/611/EEC").

This document and any information contained herein including investment and economic outlook information, opinions and estimates (collectively, the "Materials") is provided for information purposes only and do not constitute advice or an offer, solicitation or invitation to buy or sell any securities or related financial instruments. The Materials are not directed at or intended for use by any person resident or located in any jurisdiction where (1) the distribution of such information or functionality is contrary to the laws of such jurisdiction or (2) such distribution is prohibited without obtaining the necessary licenses and such authorizations have not been obtained. The SICAV's Sub-Funds mentioned in the Materials ("Funds") may not be eligible for sale or available to residents of certain countries or certain categories of investors.

Prospective investors should review the Prospectus of the SICAV carefully and in its entirety, and consult with their legal, tax and financial advisors in relation to (i) the legal and regulatory requirements within their own countries for the subscribing, purchasing, holding, converting, redeeming or disposing of SICAV's Shares (the "Shares"); (ii) any foreign exchange restrictions to which they are subject in their own countries in relation to the subscribing, purchasing, holding, converting, redeeming or disposing of Shares; (iii) the legal, tax, financial or other consequences of subscribing for, purchasing, holding, converting, redeeming or disposing of Shares; and (iv) any other consequences of such activities.

Past performance may not be a reliable guide to future performance. The value of investments and any income from them is not guaranteed and may fall or rise and the investor may not get back the original investment. Exchange rate movement could increase or decrease the value of underlying investments/ holdings.

Index returns are for illustrative purposes only, do not represent actual fund performance and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index.

None of the Shares of the Funds has been or will be registered for sale or distribution in Canada or in the United States.

Copies of the Articles of Incorporation of the SICAV, the current Prospectus and the latest financial reports may be obtained free of charge during normal office hours at the registered office of the SICAV in Luxembourg: 14, Porte de France, L-4360 Esch-sur-Alzette, Grand Duchy of Luxembourg.

The Materials are provided on an "as is, where is" basis and the Funds, RBC Global Asset Management Inc. and their affiliates and subsidiaries ("RBC Companies") do not make any express or implied warranties, representations, or endorsements with respect to the Materials, including without limitation, warranties as to merchantability, operation, non-infringement, usefulness, completeness, accuracy, currency, reliability, correctness and fitness for a particular purpose. All opinions and estimates contained in the Materials constitute our judgment as of the indicated date of the information and are subject to change without notice. Interest rates and market conditions are subject to change.

None of the RBC Companies are responsible, and will not be liable to you or anyone else, for any damages whatsoever and howsoever caused (including direct, indirect, incidental, special, consequential, exemplary or punitive damages) arising out of or in connection with the Materials or any action or decision made by you in reliance on the Materials, or any errors in or omissions or any unauthorized use or reproduction of the Materials, even if an RBC Company has been advised of the possibility of these damages.

® Registered trademark of Royal Bank of Canada. RBC Global Asset Management is a trademark of Royal Bank of Canada. Used under licence. © RBC Global Asset Management Inc. 2012

Publication Date: 1/31/12 (IC1201041)