



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

In the fourth quarter of 2011, the RBC Funds (Lux) – Global Resources Fund, Class O (the “fund”) increased 13.6%, outperforming the 12.6% gain for the customized benchmark*.

The fund benefited from takeover offers for two holdings during the quarter. In October, Brigham Exploration contributed to returns following a cash takeover bid from Statoil. The Norwegian oil firm backed its belief in the growing importance of unconventional sources of energy supplies with an agreed \$36.50 per share offer, a 36 percent premium to Brigham's average price over the previous month. Then in December, copper producer Quadra FNX Mining rose over 36% following a takeover offer from KGHM, a Polish mining company.

Coastal Energy was another strong performer during the quarter, rising over 50% and ending the year as the top holding by weight in the portfolio. Coastal Energy is an oil & gas exploration company with onshore and offshore assets in Thailand. The company had some successful drill results in its offshore properties and was able to more than double its reserves in 2011, while also growing production.

Commodity prices were exceptionally volatile in 2011. Demand worries were the real story of 2011 with the saga of European Debt issues outweighing any concerns of near constant commodity supply side constraints and interruptions. In 2011 only gold and crude oil ended the year higher up 9% and 6% respectively. Gold prices ranged between \$1420 and \$1891 while crude prices ranged between \$115 and \$75 throughout the year. We have been negative on natural gas prices for some time now due to the rapid increase in North American gas production from unconventional tight reservoirs (shale) as a result of improved reservoir technologies. North American natural gas prices declined some 42% in 2011.

In 2011, the global recovery was disrupted but not quite derailed by a seemingly endless string of supply and demand shocks: to food and energy (Arab spring, droughts, Chinese pork prices), to the auto and technology supply chain (Japan's devastating earthquake, Thailand's destructive floods), and to faith in policy and politicians (the US debt ceiling stand-off, the euro zone). Almost none of this was, or could have been, predicted a year ago.

While we have a secular bullish stance on commodities in the intermediate to longer term horizon, the near term continues to be plagued by macro events and concerns out of Europe and China. However, central bankers are beginning to act to ease monetary policy, which should have a positive impact on aggregate demand, albeit less in Europe given European austerity and deleveraging concerns.

Despite these exogenous shocks and the overlying uncertainty in the global credit markets we see extraordinarily good buying opportunities. Equity share price valuations are at very attractive levels and in many cases stocks are discounting recessionary levels of demand.

*Customized benchmark is 65% MSCI World Energy Index (Net of Taxes) & 35% MSCI World Materials Index (Net of taxes)



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Publication Date: 1/31/12 (IC1201041)