

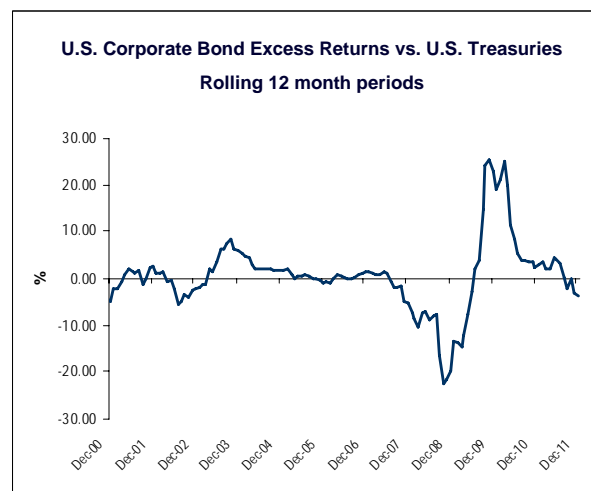


RBC Funds (Lux) - U.S. Investment Grade Corporate Bond Fund – Fourth Quarter 2011 Commentary

2011 was a tumultuous year for the US and world economy and this was reflected in performance of the bond market. Mixed economic news, particularly slowing growth, and the evolving European debt crisis fueled continued demands for high quality bonds. For the non-government sectors of the bond market, the “spread sectors”, market sentiment swung between risk-on search for yield and risk-off flight to quality. Spreads in corporate debt tightened by just four basis points versus Treasuries during the fourth quarter, to end the year at 234 bps over Treasuries. Overall in 2011, investment grade corporate spreads widened 78 basis points.

Investment grade corporate bonds had a positive fourth quarter with a three month total return of 1.93% for the Barclays Capital Corporate Bond Index, and outperformed like duration Treasuries by 0.82%.

Utilities and industrials were the strongest performing sectors in high grade credit, with quarterly total returns of 2.24% and 2.28% respectively, in absolute terms based on Barclays Capital Indices. Financials had weaker performance, returning 1.22% in absolute terms for the quarter, as investors remained cautious about banks’ exposure to Europe.



Source: Barclays Capital

In a reversal of third quarter performance, the finance sector was the largest contributor to positive performance in the fourth quarter of 2011, primarily as a result of good security selection. Although generally a decent quarter for risky assets, there was still uncertainty and fear driving the market into year end, so there was some unevenness in the market, and this was primarily evident in continued weakness in Banking, Brokerage, and to some extent in Insurance.

Sector Themes:

Finance

We had no exposure to the brokerage industry, which was positive for performance, as MF Global filed for bankruptcy, and Jeffries continued to lead the sector lower. Underweight exposures in most of the large banking names (Bank of America, Morgan Stanley, and Goldman Sachs) were positive for performance. Overweight positions in REITs, MetLife, Fifth Third Bancorp, and HSBC also helped performance. On the negative side, AXA Financial underperformed on continued Europe fears, and our overweight position there was negative. Union Bank of California also underperformed modestly – we continue to like this credit story, and have already seen bonds recover from a weak year-end price. Overall, security selection in Credit added 30 basis points of performance.

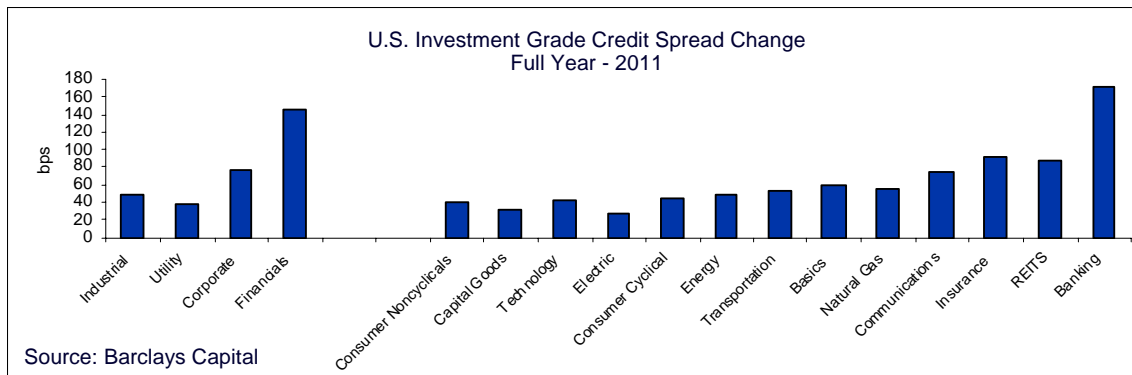


Industrials

Within Industrials, security selection was positive by 10 basis points. New issue Ecolab was among the strongest contributors with solid performance after a December new issue. Continued overweight positions in Telecom and Basics were also positive, as these sectors were among the better industrial performers in the fourth quarter. Strong results here were somewhat offset by Transocean, which was among the weakest credits this quarter. We sold our position in October after the company reported weak earnings; subsequent to our sale, bonds were placed on review for downgrade, and continue to lag the market.

Utilities

In Utilities, performance lagged slightly. We have adopted a more conservative stance with this sector, which has reduced overall risk in the portfolio, but has also resulted in modest underperformance for the fourth quarter. Sempra Energy was the biggest laggard, followed by Virginia Electric & Power and Xcel Energy. These all very defensive, good quality issuers, and we expect to maintain this risk profile in Utilities as we move into 2012.



Market Outlook

In spite of the market volatility experienced during 2011, we are positive on investment grade credit for 2012. Fundamentals for credit remain strong. Corporate leverage has improved rapidly, and many companies have improved the quality of assets on their balance sheets. Additionally, firms are running with high levels of cash, which means reduced reliance on short-term debt. In many respects, corporations looking less risky than traditional safe havens such as government bonds.

Valuations are attractive on both a short-term and long-term basis. Technicals may be negative in the short run, driven by depressed investor sentiment, higher borrowing costs for levered players, and macro uncertainty. But longer term, we think they are more positive as the search for yield will eventually drive more players out the risk curve

We are maintaining a slightly more defensive stance in our positioning of the Fund, given the probability of continued risk flares primarily around events in Europe. We have selectively repositioned credit exposure in financials into lower duration or higher quality positions. We remain overweight to financials, in names where our bottom-up research continues to find valuations compelling, but expect to capture better performance through shorter duration yield, rather than longer duration spread tightening. The Fund remains well diversified across corporate sectors.



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