RBC Global Asset Management

# RBC Vision™ Core Funds: Investment Principles

RBC Vision Funds are a family of funds that invest primarily in the securities of companies that conduct themselves in a socially responsible manner. The RBC Vision Funds' Investment Principles set out the screening criteria used to assess the environmental, social and governance (ESG) performance of companies. Companies that do not meet these standards may be placed on a list of ineligible securities, which is a list of companies whose securities cannot be held in RBC Vision Funds.

| RBC Vision Core Funds | RBC Vision Thematic Funds |
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| **RBC Vision Bond Fund** | RBC Vision Fossil Fuel Free Short-Term Bond Fund |
| **RBC Vision Balanced Fund** | RBC Vision Fossil Fuel Free Bond Fund |
| **RBC Vision Canadian Equity Fund** | RBC Vision Fossil Fuel Free Balanced Fund |
| **RBC Vision Global Equity Fund** | RBC Vision QUBE Fossil Fuel Free Low Volatility Canadian Equity Fund |
| | RBC Vision Fossil Fuel Free Global Equity Fund |
| | RBC Vision Fossil Fuel Free Emerging Markets Equity Fund |
| | RBC Vision Women's Leadership MSCI Canada Index ETF[1] |

There are two categories of RBC Vision Funds:

1. Core funds that apply a broad-based multi-factor ESG screen.
2. Thematic funds[2] that apply a single-factor ESG screen.

For all RBC Vision Funds, investment decisions are solely the responsibility of RBC Global Asset Management Inc. (RBC GAM). The RBC Vision Funds' Investment Principles reflect what we believe are the most important issues of concern for socially responsible investors. We may modify or add to these Investment Principles at our discretion to reflect the evolution of views on our ESG screens. The following set of principles apply to the RBC Vision Core Funds only.

In consultation with Sustainalytics[3], RBC GAM developed the ESG analytical framework for the RBC Vision Funds' Investment Principles for the RBC Vision Core Funds. Sustainalytics is responsible for assessing the performance of companies against this framework.

## Environmental, social and governance analytical framework

The RBC Vision Core Funds' Investment Principles outlined in the next section are divided into three basic types of screening criteria: product involvement, qualitative, and relative performance. In addition to these socially responsible investing screens, as with all RBC GAM funds, our investment teams managing the RBC Vision Funds integrate material ESG factors into their investment processes. For a more detailed discussion on ESG integration at RBC GAM, please see our Approach to Responsible Investment.

**Product involvement screening criteria**
Product involvement screening criteria are used to screen out companies that manufacture, sell or provide services related to products that socially responsible investors may wish to avoid. The screening criteria under RBC Vision Core Funds' Investment Principles include involvement in the areas of alcohol, gaming, weapons, adult entertainment, cannabis,

[1] The RBC ETF referred to herein is not sponsored, endorsed, or promoted by MSCI Inc., and MSCI Inc. bears no liability with respect to the RBC ETF or any index on which the RBC ETF is based. RBC Global Asset Management Inc. licenses the use of the MSCI index and is not affiliated with MSCI Inc. The RBC ETF's prospectus contains a more detailed description of the limited relationship MSCI Inc. has with RBC Global Asset Management Inc. and the RBC ETF.
[2] Please refer to the RBC Vision™ Thematic Funds: Investment Principles for details.
[3] Sustainalytics is a global leader in ESG and corporate governance research and ratings. Sustainalytics supports hundreds of the world's foremost investors who incorporate ESG and corporate governance insights into their investment processes.

and tobacco. Most are based on a threshold of involvement that is defined in terms of percentage of annual revenues.

**Qualitative screening criteria**

Qualitative screening criteria are applicable to areas such as community, corporate governance, employee relations, environment, human rights, and product and business practices, in which it is possible for a company to have both positive and negative impacts. It is therefore possible to implement positive screening criteria – that is, screening criteria designed to select companies with desirable attributes – as well as negative screening criteria – that is, criteria designed to screen out companies with undesirable attributes. The inclusion of positive screening criteria reflects one of the goals of most socially responsible investors, which is to focus not only on screening out companies with poor records, but also on encouraging positive social and environmental performance by "screening in." The application of qualitative criteria involves evaluating each company's overall performance, both positive and negative, in each issue area. In the area of employee relations, for example, exceptionally strong employee benefits and programs may offset a less-than-perfect union-relations record. The application of qualitative screening criteria may also involve balancing strengths and concerns across issue areas. For example, strong performance in the area of employee relations may be sufficient to offset a weak environmental record. On the basis of such evaluation, the qualitative screening criteria listed under RBC Vision Core Funds' Investment Principles are used to screen in companies that, on balance, have positive ESG records and screen out companies that, on balance, have poor records.

**Relative performance screening criteria**

Sustainalytics provides both an absolute ESG risk rating, which can be used to compare unmanaged ESG risk across all industries, and a best-in-class approach to company ESG Risk ratings, in which each company's record is evaluated in relation to that of its industry counterparts. The standard for performance is the best practices in its industry. As part of its performance assessment, Sustainalytics uses the best-in-class approach to evaluate safety and environmental records because, in both of these areas, companies in certain sectors face unique challenges that may be inherent to the nature of the operations of their sector only. For example, a company within the forestry sector is not expected to eliminate all negative environmental impact, because it is measured against the standard of best practices in its sector. The best-in-class approach facilitates engagement with companies in sectors that have a high level of exposure to certain safety or environmental issues. It sends the message to such companies that they are not expected to be "perfect" (i.e., to eliminate all safety concerns or environmental impact). Instead they are expected to adhere to the best practices of their industry, and if they do so they will be eligible for investment. Thus, the best-in-class approach can provide an incentive for companies in industries facing safety and environmental challenges to improve their performance.

## RBC Vision Core Funds' Investment Principles

The RBC Vision Core Funds' Investment Principles outlined in the below detail the ESG screens used by the RBC Vision Core Funds.

**Product involvement screening criteria**

The RBC Vision Core Funds will avoid investing in the securities of companies meeting any of the criteria listed below.

(i) Alcohol

- The company is directly involved in the production of alcoholic beverages and 5% or more of its revenue comes from this activity.
- The company derives 10% or more of its revenue from activities related to the production of alcoholic beverages, which may include the indirect involvement through a subsidiary.
- The company derives 10% or more of its revenue from the sale of alcoholic beverages.

(ii) Gambling

- The company is directly involved in the ownership or operation of casinos, racetracks, online gambling, bingo parlors or other betting establishments.
- The company derives 10% or more of its revenue from the production of goods and services related to gambling operations, which may include the indirect involvement through a subsidiary.

(iii) Weapons

- The company develops and/or manufactures military weapons and/or small arms and 5% or more of its revenue comes from this activity.
- The company manufactures weapons-delivery systems (such as jet fighters, battleships, military submarines, tanks, and armoured personnel carriers) and 5% or more of its revenue comes from these activities.
- The company derives 5% or more of its revenue from the design and/or manufacture of specialized components of weapons.

- The company derives 10% or more of its revenue from the design and/or manufacture of non-specialized components of weapons or of components/parts for weapons delivery systems, which may include the indirect involvement through a subsidiary.
- The company derives 10% or more of its revenue from the provision of support services for weapons delivery systems, such as the repair and overhaul jet fighters, military flight training services, etc., which may include the indirect involvement through a subsidiary.
- The company derives 10% or more of its revenue from the retail sales of small arms.

(iv) Adult entertainment

- The company is directly involved in the production of adult entertainment materials and 5% or more of its revenue comes from this activity.
- The company derives 10% or more of its revenue from the production of goods and services related to adult entertainment, which may include the indirect involvement through a subsidiary.
- The company derives 10% or more of its revenues from the rental, sale or distribution of adult entertainment materials.

(v) Cannabis

- The company manufactures cannabis products and 5% or more of its revenue comes from this activity.
- The company derives 10% or more of its revenue from the production of cannabis-related products, which include the indirect involvement through a subsidiary.
- The company derives 10% or more of its revenue from the sale of cannabis products.

(vi) Tobacco products

- The company manufactures tobacco products and 5% or more of its revenue comes from this activity.
- The company derives 10% or more of its revenue from the production of tobacco-related products, which include the indirect involvement through a subsidiary.
- The company derives 10% or more of its revenue from the sale of tobacco products.

**Qualitative screening criteria**

Evaluating a company's performance in relation to qualitative criteria involves assessing a company's overall performance, both positive and negative, in each issue area. It may also involve balancing strengths and concerns across issue areas. The RBC Vision Core Funds will seek to invest in companies that, on balance, have positive records according to the following criteria. One way for the funds to implement this is by removing companies that have made a significant negative impact on stakeholders which is interpreted by a company receiving a high controversy assessment through Sustainalytics. Both positive and negative screening are discussed below.

(i) Community

The word "community" refers primarily to the residents of local communities in which a company operates. In the case of many resource companies, this often means Indigenous peoples affected by the activities of the business. The word "community" may also refer to larger areas, such as a province or nation, to the extent that society in such larger areas is affected by a company's operations.

Positive screening criteria

- The company contributes directly to the development of communities in which they operate through donations or community investment programs, and through early and structured consultation.

Negative screening criteria

- The company has ignored or failed to take into account the needs and interests of communities affected negatively by its operations or planned operations. Evidence of such failure may be found in a lack of engagement in public consultation, especially in the face of community opposition, or in fines, civil penalties, or civil suits related to a company's negative impact on communities.
- The company has ignored or failed to take into account the needs, interests and rights of Indigenous peoples affected by its operations or planned operations.

(ii) Corporate governance

Strong corporate governance practices enhance investor confidence in a company. They also help to prevent abusive corporate practices. As with all RBC GAM funds, RBC Vision Core Funds support the development of good corporate governance practices through the voting of proxies. The RBC Vision Core Funds may also screen out companies with exceptionally poor governance practices. The assessment of corporate governance practices will give consideration to numerous elements, including:

- The development and implementation of corporate governance best practices.
- A strong code of business conduct.

- Respect for basic shareholder rights.
- The level of independence of the Board.
- The level of independence of key Board committees.
- Whether or not the roles of chairman and CEO are separated.
- The company's share structure.
- An executive compensation plan that appropriately aligns the interests of management with those of shareholders.
- The presence of excessive termination agreements.
- Potential dilution that may result from the company's equity-based compensation plans.
- Any involvement in controversies related to the company's corporate governance practices.

(iii) Employee relations[4]

Positive screening criteria

- The company offers a comprehensive benefits package to its employees. In addition to basic benefits, such benefits may include programs to encourage employee ownership (through stock option or share purchase plans), profit sharing plans, wellness programs and policies that support employee engagement and well-being.
- The company has implemented policies and management systems to ensure the health and safety of its employees.
- The company has initiatives in place to promote workplace diversity.

Negative screening criteria

- The company provides inadequate benefits to its employees.
- The company has a health and safety record that is poor relative to its industry counterparts.
- The company has poor relations with its unionized workers, including a recent history of contracting out unionized jobs, first contract arbitration hearings, strike activity, or unfair labour practices. Or, the company has engaged in anti-union activity in opposition to attempts on the part of some workers to become unionized.
- The company has faced major controversies or legal action related to discrimination in the workplace or employment equity issues.

(iv) Environment

In assessing each company's environmental performance, consideration will be given to the following elements:

- Environmental management and reporting systems.
- The company's record of compliance with applicable environmental laws, regulations, and operating permits.
- Methods of use/extraction of natural resources (this includes consideration of the use of recycled materials in production processes, the use of alternative energy sources, or resource extraction methods that minimize environmental impact).
- Level of emissions of hazardous or toxic substances or substances that contribute significantly to ozone depletion or the formation of acid rain.
- Impact on natural ecosystems, including the health and viability of wildlife populations (this includes consideration of development projects or other planned operations that are likely to have such an impact).
- Measures to reduce the environmental impact of operations (this includes consideration of reductions in the use and/or release of toxins, hazardous substances, and other pollutants).
- The impact of the company's product (this includes consideration of the provision of remediation or other environmental services, or products with environmental benefits, as well as the manufacture of products, such as pesticides or other harmful chemicals, that have a negative impact on the environment).
- Disclosure of greenhouse gas (GHG) emissions and efforts to reduce and/or mitigate GHG emissions.
- Disclosure of material climate-related risks and how those risks are being managed.

(v) Human rights

Positive screening criteria

- The company has implemented a code of conduct that addresses human rights issues relevant to its operations in countries with poor human rights records.
- The company has implemented a code of conduct that addresses human and labour rights issues related to its supplier relationships.
- The company has implemented mechanisms to ensure compliance with its human rights code(s) of conduct.
- The company has implemented a code of conduct for operations in conflict zones.

[4]Assessment under these criteria includes both directly employed workers and contract workers.

- The company has management structures and systems in place to ensure compliance with the code of conduct.

Negative screening criteria
- There is substantial evidence that the company has been complicit in the violation of human rights.
- The company has operations that create significant exposure to human rights issues. Such exposure may result from involvement in sectors including, but not limited to, resource extraction and infrastructure development.
- The company is involved directly or through its major suppliers in the use of child, forced, or "sweatshop" labour.
- There is substantial evidence that the company has been complicit with military or paramilitary organizations participating in armed conflict. This would include the provision of funding, logistics, or equipment either directly or indirectly to the parties of the conflict.
- The company operates in a conflict zone and there is substantial evidence that its operations there are exacerbating the conflict.

(vi) Product and business practices

Positive screening criteria
- The company has a written/formal code of ethics or business conduct, as well as mechanisms to ensure compliance with the code, such as training for all employees, an annual review and sign-off on the code by all employees, etc.
- The company has a formal policy on bribery and corruption.
- The company has a formal policy on whistleblower protection.

Negative screening criteria
- The company has regularly engaged in fraudulent, deceptive, or highly controversial marketing or advertising practices.
- The company has been convicted or paid recent fines or civil penalties related to price fixing, antitrust violations, tax evasion, or other illegal business activities.
- There is a clear pattern of negligence concerning the safety of one or more of the company's products. Evidence of this would include multiple lawsuits and regulatory actions that allege the company's products have caused life-threatening injuries, illness or death while being used responsibly and for their intended use.
- There is substantial evidence of the company's involvement in bribery or corruption.

**Relative performance screening criteria**
Using its best-in-class methodology, Sustainalytics reviews each company's level of unmanaged ESG risk and compares it to that of peers in their sub-industry. If there is a severe level of unmanaged risk and the company's ESG Risk Rating scores in the bottom quartile of its peer group, the company is ineligible for investment. As a result, we remove the worst-in-class companies in the industry from the investment universe.

To learn more about the Sustainalytics' ESG Risk Ratings methodology, please visit:

https://www.sustainalytics.com/esg-data/

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