Japan's Stewardship Code



Overview of RBC Global Asset Management

Royal Bank of Canada ("RBC") provides banking, wealth management services, insurance, corporate and investment banking and transaction processing services on a global basis. RBC employs approximately 86,000 people who serve more than 16 million clients through offices in Canada, the United States and 34 other countries.

RBC Global Asset Management ("RBC GAM")¹ is the asset management division of RBC and is a provider of global investment management services and solutions to investors through separate accounts, pooled funds, mutual funds, exchange traded funds and specialty investment strategies.

The RBC GAM group of companies manage approximately ¥40 trillion in assets worldwide (as at June 30, 2020) and have approximately 1,400 employees located across Canada, the United States, Asia and the United Kingdom.

RBC GAM includes RBC Global Asset Management Inc. (including Phillips, Hager & North Investment Management), RBC Global Asset Management (U.S.) Inc., RBC Global Asset Management (UK) Limited, RBC Global Asset Management (Asia) Limited, and BlueBay Asset Management LLP, which are separate, but affiliated subsidiaries of RBC

Principle 1:

Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

RBC GAM's Approach to Responsible Investment

Our Approach to Responsible Investment ("Approach to RI") is the formal policy document that governs the responsible investment and stewardship activities at RBC GAM. It provides a comprehensive overview of RBC GAM's responsible investment activities, commitments, responsibilities and practices. Our Approach to RI is anchored by the knowledge that our clients have entrusted us to help them secure a better financial future for themselves or for the beneficiaries of the funds they manage. As stewards of our clients' assets, we are committed to ensuring that the issuers in which we invest act in alignment with the medium-to long-term interests of our clients.

At RBC GAM, we believe that:

- Being an active, engaged and responsible owner empowers us to enhance the long-term, risk-adjusted performance
 of our portfolios and is part of our fiduciary duty
- Issuers that manage their material Environmental, Social & Governance ("ESG") risks and opportunities effectively are more likely to outperform on a risk-adjusted basis, over the long term
- Engagement through private dialogue is often effective at facilitating change
- Initiatives that increase transparency and foster fair and efficient markets benefit all investors and clients globally
- Collaboration with like-minded investors may give us greater influence on issues that are material to our investments

Our Approach to RI is comprised of three pillars that set out these beliefs. Each of the specific actions we take under each of these pillars is aimed to deliver on our duty of maximizing our clients' investment returns without undue risk of loss.

Our Approach to RI



Fully integrated ESG: All investment teams integrate relevant ESG factors into their investment processes.

Fully integrated ESG means that every investment team evaluates ESG factors as a part of their investment decision-making process. Our approach to ESG integration is investment-led, focuses on materiality, promotes transparency and accountability, and continuously improves and innovates. We have a variety of tools and resources that are embedded in the investment philosophy and processes, which enable our teams to integrate ESG factors in security selection and ongoing monitoring. These processes are described in more detail under Principle 3.



Active stewardship: We convey our views through thoughtful proxy voting, engagement with issuers and regulatory bodies, and collaboration with other like-minded investors.

Active stewardship means that we convey to issuers and regulatory bodies our views on topics deemed material for our investments or portfolio, including board structure, executive compensation, gender diversity, and climate change, in an effort to promote sustainable growth at our investee companies and aim to enhance medium- to long-term risk-adjusted returns for our clients and their beneficiaries. We do this through thoughtful proxy voting, constructive engagement with issuers and regulatory bodies, and collaboration with other like-minded investors. As stewards of our clients' assets, we are committed to ensuring that the issuers in which we invest act in alignment with the long-term interests of our clients. Details on our engagements and custom Proxy Voting Guidelines are discussed further under Principles 4 and 5.



Client-driven solutions and reporting: We align our solutions with client demand and provide transparent and meaningful reporting

Client-driven solutions and reporting means that we align our solutions with client demand and provide transparent and meaningful reporting. Transparency and accountability are key to maintaining meaningful relationships with our clients and delivering on our fiduciary duty. Therefore, we tailor our reporting to clients based on what is most important to each type of client, across each region. As our clients' needs evolve, we are continuously improving our reporting and product solutions to meet those needs. Our stewardship reporting capabilities.are described in more details under Principle 6.

Stewardship Resources

At RBC GAM, we recognize that the rights we have as a large global investor come with the obligation to actively utilize those rights in a responsible manner. RBC GAM has dedicated considerable resources to integrating ESG issues into our investment process. We have a dedicated Corporate Governance and Responsible Investment ("CGRI") team within our investment platform to consolidate and lead our efforts in active stewardship and responsible investment. The CGRI team is embedded as part of the investment team and the head of the CGRI team reports directly to the Chief Investment Officer ("CIO") and is a member of the Executive Committee which is the senior decision making forum within RBC GAM. As a centralized function, the CGRI team's primary responsibility is to lead responsible investment and stewardship across the firm. This includes:

- Developing cohesive RI strategies and policies for Executive Committee approval, including the Approach to Responsible Investment, Approach to Climate Change, and Proxy Voting Guidelines
- Supporting the ESG integration of RBC GAM's investment teams, including by providing ESG-related research and education, maintaining vendor relationships, and updating teams on new tools, evolving trends and best practices regarding ESG integration. The CGRI team also conducts the annual review of ESG integration processes across investment teams and supports the continuous improvement of practices and technology.
- Executing and managing RBC GAM's proxy voting activities, including voting proxies and leading the annual review and update of the RBC GAM Proxy Voting Guidelines. This function is centralized, as we believe that the principles we apply in proxy voting are in the best interests of all shareholders and our clients. Therefore, RBC GAM generally votes the same across all client accounts and funds, according to our RBC GAM custom Proxy Voting Guidelines.² In all cases, the CGRI team reviews each vote individually and seeks input from investment teams on specific issues, to ensure voting reflects the best interest of our clients in both systemic and company-specific matters.

- Participating in collaborative initiatives with like-minded investors and national or international organizations/ coalitions on ESG-related issues, where appropriate.
 The team also supports the direct engagement program by liaising with investee companies and investment teams, where appropriate.
- Maintaining a high level of expertise on material and emerging ESG trends, and preparing client reporting and thought leadership pieces related to RBC GAM's RI activities and insights.

The day-to-day implementation of responsible investment and stewardship activities is shared between the CGRI team and our various investment teams. Since investment teams directly manage holdings in portfolios on behalf of our clients, they are best equipped to integrate ESG and stewardship considerations into the investment decision. This ensures that stewardship activities add value to and complement the teams' unique investment processes. Portfolio managers and analysts are regularly evaluated on their teams' integration processes, and this may be included as a component of their annual variable compensation. Specific RI responsibilities of investment teams include:

- Integrating ESG factors into their investment processes in a way that adds value to their unique strategies, including by evaluating the material ESG risks and opportunities embedded within each investment and continually increasing knowledge of material ESG topics.
- Engaging with investee issuers on material ESG issues, where appropriate, and tracking the frequency and outcomes of these engagements on a best-efforts basis.
 In addition, the investment teams' input and feedback is key when voting on key resolutions at investee companies' general meetings.

RBC GAM uses a variety of tools to integrate ESG considerations in the investment decision including: ESG research (in-house and externally sourced), engagement with the companies in which we are invested, comprehensive custom Proxy Voting Guidelines, collaboration with like-minded investors and engagement with regulators. We do not outsource

² The Guidelines are applied in Canada, the United States, the United Kingdom, Ireland, Australia, and New Zealand. In all other markets, RBC GAM utilizes the local proxy voting guidelines of a research provider.

our stewardship activities, although we use a service provider to help administer our custom Proxy Voting Guidelines. In addition, we have engaged a number of external research firms to provide specialized ESG research that we use in conjunction with other forms of analysis. We currently purchase research from MSCI ESG Research Inc., Sustainalytics, TruValue Labs, Institutional Shareholder Services, Glass Lewis & Co., and the

Carbon Disclosure Project ("CDP"). In addition, we also access ESG research and tools through our existing Bloomberg subscription. This research provides us with information on ESG risks and opportunities relevant to specific issuers, countries and industries and also provides us with broadbased thematic research relevant to general ESG themes.

Principle 2:

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

As institutional investment managers, we have a fiduciary duty to act in the best interests of our clients and to have robust policies and procedures reasonably designed to prevent or manage conflicts of interest. Our conflict of interest policies establish the standards required to be followed by RBC GAM to ensure compliance with all applicable securities laws and regulations of the jurisdictions in which we operate.

Our conflict of interest policies cover all potential conflicts that may arise, including conflicts relating to the bank-owned structure of RBC GAM, personal trading, payments, gifts and entertainment, external directorships/outside activities, proxy voting and engagement. Our policies recognize that a conflict of interest arises when the interests of an individual or the firm are inconsistent with the interests of a client, including an investment fund unitholder, or when there is a conflict between the interests of different clients. We consider conflicts of interest to include actual conflicts, potential conflicts where there is a reasonable probability that an actual conflict will arise, and perceived conflicts where the perceived conflict could cause reputational damage to RBC GAM.

RBC GAM's policies require it to:

- establish appropriate controls and processes to identify conflicts of interest and either eliminate or satisfactorily manage them;
- ii. train employees on conflicts of interest and provide support in conflict of interest identification; and
- iii. maintain records of identified conflicts of interest.

RBC GAM does not make its compliance policies publicly available, but does disclose its conflict of interest policies and practices to clients in accordance with the securities laws and regulations in the jurisdictions in which it operates. The above provides a robust description of our policies.

Addressing potential conflicts

At RBC GAM, we maintain a Conflicts of Interest Identification Policy and Procedures document, which is updated annually

and includes a "Conflict of Interest Register." This register comprises of a description of each potential conflict identified. All potential or actual conflicts of interest, including ones related to proxy voting and engagement, have been addressed by placing appropriate controls and appropriate policies.

For example, as a bank-owned asset manager, RBC GAM is in a conflict of interest position when it exercises its annual proxy voting rights for RBC shares. For Canadian funds, all proxy voting decisions related to RBC shares are approved by the CIO and RBC GAM's Independent Review Committee ("IRC"). The IRC is required by securities regulation in Canada to oversee all conflict of interest matters, including proxy voting.

Proxy Voting and Engagement

Our conflict of interest policies prohibit any undue influence being exerted on our proxy voting and engagement activities from RBC or any other issuer which might have a relationship with RBC or any of its affiliates. RBC GAM has its own policies and procedures relating to proxy voting and engagement and is typically not aware when an issuer has a relationship with RBC or its affiliates. In addition, potential conflicts of interest are significantly reduced due to our centralized proxy voting that is administered and overseen by the CGRI team in accordance with our custom Proxy Voting Guidelines.

RBC GAM has a Proxy Voting Committee, which includes the CIO. The following issues are escalated to the Proxy Voting Committee:

- instances where RBC GAM believes it is in the best interests of a client to deviate from the recommendation made by our service provider based on our Proxy Voting Guidelines because 1) we believe that those guidelines have been misinterpreted or misapplied; or 2) we believe that the unique circumstances of the company warrants a different approach;
- instances where our proxy voting may give rise to an actual or perceived conflict of interest; and

unusual circumstances regarding corporate action items.
 We generally vote all corporate action items, including those relating to mergers and acquisitions, in consultation with our investment teams. However, in the event of unusual circumstances or a difference of opinion between individual investment teams on how to vote a particular proxy, we escalate the matter to the Proxy Voting Committee.

Proxy voting decisions are made by the Proxy Voting Committee based on a review of the voting matter with portfolio managers and if the CIO deems it necessary, with the Chief Executive Officer ("CEO").

If any member of the Proxy Voting Committee is aware of a possible conflict of interest related to himself or herself and the exercise of the proxy voting rights, that member will excuse himself or herself from any discussions or decision-making

concerning that proxy voting matter. In the rare event that all members of the Proxy Voting Committee are aware of a conflict of interest, the CIO will make all decisions concerning the exercise of proxy voting rights in the best interests of our clients. The CIO is ultimately responsible to the CEO for the manner in which the proxy voting rights are exercised.

Similar principles are applied with respect to engagement with the companies in which we are invested. As noted above, RBC GAM is typically unaware of any relationship RBC may have with an issuer, which helps to avoid any actual or potential conflict of interest when we set our engagement priorities. Our engagement priorities and activities are undertaken based solely on what we determine is in our clients' best interests, unaffected by any other considerations. Any attempts to influence our engagement priorities or activities would be immediately reported to our CIO.

Principle 3:

Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

Monitoring through ongoing research and analysis

Active stewardship through the ongoing monitoring of our investments is a core part of our investment process. Our investment teams oversee the performance of their investments and conduct extensive research and analysis on an ongoing basis.

While each of our investment teams aim to create value through their specialized disciplines and processes, they are able to leverage the broad range of tools that exist within RBC GAM to assist in portfolio construction, security selection, trade execution, and comprehensive performance measurement and attribution. Those tools assist our investment teams in monitoring their investments by helping to:

- expand access to information and enhance data analysis;
- position comprehensive portfolio modeling and management systems at the center of investment decision making;
- take advantage of the benefits of integrating fundamental, technical and quantitative analysis;
- provide robust and comprehensive risk management; and
- provide deep and thorough performance analytics.

In addition, our investment teams have access to current research on ESG risks and opportunities relevant to specific issuers, industries and countries, along with broad-based thematic research relevant to general ESG themes. Research is sourced from multiple external research providers to ensure multiple perspectives are considered.

Our CGRI team and investment teams also conduct independent analysis of ESG-specific issues, which is used in conjunction with the analysis and ratings provided by external research providers. Any analysis conducted by the CGRI team is made available to the investment teams. For example, in order to help our investment teams effectively monitor existing or emerging ESG issues within their portfolios, on a monthly basis the CGRI team distributes "ESG Portfolio Snapshots" to relevant portfolio managers for the majority of RBC GAM's equity funds. These snapshots highlight some of the potential ESG issues within a portfolio - including the ESG "scores" of the top ten holdings in the portfolio, any portfolio holdings that rank in the lowest ESG score category, issuers that have been flagged for the most

severe ESG-related controversies, and any issuer that has fallen into the lowest score category or has been flagged for the most severe level of ESG-related controversy since the previous snapshot. The snapshots also compare the overall ESG score of the portfolio to its custom benchmark.

Furthermore, we integrate climate risks and opportunities at the product and portfolio levels by using advanced data and tools, including climate scenario analysis. The CGRI team is developing climate scenario analysis reports for the investment teams in conjunction with our Global Risk Management team. Those reports will be distributed to investment teams on a quarterly basis.

Moreover, we document the specific ESG integration tools and processes that each investment team uses to identify any further challenges or improvements that could complement teams' specific investment strategies. This ensures that the integration of ESG factors enables effective stewardship and ultimately adds value to clients and beneficiaries.

While all ESG factors may be material depending on the issuer, corporate governance is of particular importance to us as a firm. This is because we believe that, in general, issuers with good corporate governance practices are:

- better able to focus on long-term, sustainable growth
- more likely to issue fixed income instruments with higher credit quality and lower credit risk
- more likely to also effectively manage the issuer's exposure to environmental and social factors

Additionally, how our issuers manage climate change risks and opportunities is of particular importance. We recognize that the impacts of climate change are systemic, unprecedented, and already apparent. While climate change has the potential to affect the global economy, the economic impacts on specific markets, regions, and investments are complex, varied, and uncertain. Therefore, we believe that it is vital that we properly consider climate-related risks and opportunities in our investment analysis and decisions and have developed a climate change strategy to address these risks and opportunities.

Monitoring through engagement

Our investment teams also engage extensively with the companies in which they are invested in order to gain an in-depth understanding of each company's operations, performance and strategy. These engagements often involve ESG issues and in that regard, their ongoing monitoring is often supported by the CGRI team. For our independent engagement process, our portfolio managers and analysts meet with the companies in which they invest on an ongoing basis and often discuss risks and opportunities relating to ESG factors. In addition, if our research and analysis identifies a particularly significant ESG issue in an investee company, our investment teams and/or our CGRI team will engage with the company to better understand the issue and the company's plan to address it.

In general, the goal of our ESG-focused engagement activities is to effectively communicate our views as an investment manager on behalf of our clients and to ensure that our perspective is considered as part of a company's strategy for long-term value creation. Engagement also allows us to better understand our investee companies, their governance structures and their approach to ESG issues generally, which better informs our voting and investment decisions. More specifically, the purposes of our ESG-focused engagements include:

- seeking better disclosure of ESG risks and opportunities and the steps the company is taking to address them;
- encouraging more effective management of ESG factors when we believe they may impact shareholder value;

- clarifying information in advance of a voting decision; and
- where a company is lagging its peers on a material ESG issue, seeking a commitment from the company for change, monitoring any changes and encouraging continued improvements that will impact shareholder value.

Our approach to engagement is to encourage an in-depth private dialogue over time. In general, while we may disclose the names of the companies that we have engaged with, absent exceptional circumstances, detailed particulars about our engagements will be kept confidential to allow us to develop a constructive relationship with our investee companies. However, if a company publicly discloses details of the engagement, we may also publicly comment on the engagement. Where our engagement efforts have not resulted in sufficient progress and the issue being discussed is material, we may comment publically or take more formal steps, such as filing a shareholder resolution, when we determine that it is in our clients' best interests to do so.

Although we may attend annual general meetings, we generally do not use them as a platform to speak as we believe that confidential engagement meetings in advance of an annual general meeting are usually a more productive way to raise issues of concern. We are generally not prepared to become insiders and in all of our engagement activities we take care not to receive any material non-public information about the company. Our ESG-focused engagement is done independently and through collaboration with like-minded investors. Our collaborative efforts are described in more detail in Principle 4.

Principle 4:

Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

Independent engagement activities

We assess all of our engagement activities through the lens of our clients' best interests. In each case, we consider the most effective way to address issues with investee companies and when it may be appropriate to escalate our stewardship activities in order to contribute to the long-term sustainable growth of the company. However, it is our strong preference to maintain an open dialogue and work in collaboration with our investee companies to address any ESG-related matters.

RBC GAM engages with our investee companies in a number of ways. If we have particular concerns with a company's practices, we engage on that specific issue with management or the board, either individually or together with other institutional investors. In this way, engaging with a company is one tool we use to bring a particular concern to the attention of senior management or a board of directors. The results of all ESG engagements organized by the CGRI team are shared with the investment teams and tracked over time to ensure that our issues are meaningfully addressed.

Where we are not satisfied with the progress of our engagement activities we will consider other avenues to encourage change, such as using our proxy vote to emphasize our engagement efforts, supporting/filing shareholder proposals, broadening our engagement to include other shareholders and/or making public statements. We believe it is important to monitor the progress of our engagement efforts and if we are not achieving progress, we will consider escalating our actions, as warranted. We have taken the step of filing shareholder proposals when our engagement efforts were not successful. We have found that filing shareholder proposals can be effective when used selectively.

Ultimately, if our investment teams do not believe that an ESG issue is being appropriately managed after the aforementioned engagement and stewardship activities, they will consider divesting from the company entirely; however, it is at the discretion of each of the investment teams to ultimately make this decision in the context of the overall investment decision.

Collaborative engagements

We recognize that collaboration with like-minded investors when engaging with issuers can allow us to have greater influence. Where our interests and approach are aligned, we work with other institutional investors on issuer-specific engagements. Where appropriate, we will also work with national and international organizations/coalitions on issuerspecific or market-wide issues to encourage changes that are in the best interests of our clients. Our priority for any collective engagement effort, as with all of our engagement activity, is always the best interests of our clients and the preservation of long-term shareholder value.

In Canada, we collaborate extensively through our involvement with Canadian Coalition for Good Governance ("CCGG"), which represents the interests of institutional investors and promotes good governance practices in Canadian public companies. RBC GAM is a founding member of the CCGG and our CIO is a past Chair and past member of the CCGG board, the head of the CGRI team is a member of CCGG's Public Policy Committee, and a member of the CGRI team is a member of the Environment & Social Committee. CCGG runs an extensive collective engagement program, through which it meets with the directors of Canadian companies on behalf of its members. CCGG's engagements typically run for several years and any progress made by issuers in addressing the governance matter is tracked and shared with CCGG's members.

In its December 2019 review³ of issuer progress and engagement impact, engagements covered the following themes:

- Say on Pay Policy;
- Risk Oversight;
- Strategy Oversight;
- Succession Planning;
- Executive Compensation Decision-making;
- Executive Compensation Risk Management Policies (e.g. clawback, anti-hedging, and share ownership policies);
- Board Diversity Policy;
- Shareholder Engagement Policy; and
- Board Composition & Skills.

³ Canadian Coalition for Good Governance. 2016-17 Impact Review. December 2019

The review considered progress made by issuers two years after the meeting took place. In regard to meetings from 2016, CCGG tracked a total of 125 recommendations made to a total of 38 issuer boards. Overall, CCGG determined that 28 of the 38 issuers (74%) had made at least one positive material change. In 2017, CCGG tracked a total of 106 recommendations made to a total of 36 issuers. CCGG determined that 26 of the 36 issuers (72%) had made at least one positive material change.

In addition to its work with CCGG, RBC GAM is also actively involved in other collaborative engagement initiatives. In 2020, RBC GAM became a signatory to the Climate Action 100+, focusing on active engagement with the world's largest publicly traded and systemically important carbon emitters, or companies with significant opportunity to drive the transition to a low-carbon economy. We are currently participating in four collaborative engagements with Climate Action 100+.

RBC GAM also participated in the Mining and Tailing Safety Initiative⁴, where investors requested that mining companies disclose all tailings facilities they have responsibility for, so that proper due diligence can be conducted on the risks these facilities may hold. In total, the Initiative sent letters to the board chairs of CEOs of 727 publicly listed mining companies, requesting for detailed disclosures on their tailings storage facilities. According to the Initiative⁵, as of December 2019, "332 had responded – of these, approximately 100 companies have tailings storage facilities and provided information."

Moreover, RBC GAM is a signatory to the 30% Club Canadian Investor Group, a coalition of Canada's largest institutional investors seeking to achieve a minimum of 30% women on the boards and in senior management roles of S&P/TSX Composite Index companies by 2022. We co-led three engagements in 2019 and the beginning of 2020. Our involvement with this group is indicative of our wider commitment to enhancing gender diversity at our investee companies through active stewardship. And our proxy voting activities on this issue have supported our efforts in the 30% Club Canadian Investor Group.

RBC GAM is also an active member of the Council of Institutional Investors (CII), the CDP, the International Corporate Governance Network (ICGN), Investor Stewardship Group, and the Responsible Investment Association of Canada.

In order to ensure that our engagement activities are conducted in a way that is consistent with our clients' best interests, reflects the standards of RBC GAM, and complies with the relevant regulation and legislation, we have adopted appropriate policies and procedures. This policy outlines how our engagement activities will be undertaken, and also the internal approval, monitoring, and reporting that will provide effective oversight. We also recognize that by engaging directly with issuers there is the risk that on occasion we may become privy to material, non-public information. RBC GAM has in place our Insider Trading Prohibition Policy and Procedures. This policy provides clear guidance on how these situations are to be avoided if possible, and managed when encountered. RBC GAM will ensure that we comply with the requirements of all the jurisdictions in which we operate, including Japan, as it relates to avoiding, identifying, and managing material non-public information.

⁴ Church of England. Investor Mining and Tailings Safety Initiative. https://www.churchofengland.org/investor-mining-tailings-safety-initiative ⁵ Global Tailings Portal. ABOUT THE GLOBAL TAILINGS PORTAL. http://tailing.grida.no/about

Principle 5:

Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist: it should be designed to contribute to sustainable growth of investee companies.

Voting responsibly is part of our fiduciary duty and it is our policy to exercise the voting rights of the accounts we manage in the best interests of our clients with a view to enhancing long-term value. Through the exercise of our voting rights, we encourage issuers and their boards of directors to consider and adopt recognized best practices in governance and disclosure. Our proxy voting activities are governed by our Proxy Voting Policy, which sets our procedures for administering our voting, escalating any voting issues, and identifying and managing conflicts of interest.

We vote all of our shares independently and in accordance with our custom proxy voting guidelines. We generally do not vote in "share-blocking" markets, where trading is restricted from the time a proxy is voted until after the annual meeting, which generally accounts for less than 2% of our total votes, annually. However, we may choose to vote in a meeting where share-blocking is used if a particular proposal is material enough to outweigh the liquidity concerns.

When our funds participate in securities lending, we recall all loaned securities in North America for the purpose of proxy voting. Outside North America (including Japan), we recall loaned securities when we hold 1% or greater of the outstanding voting shares or when there is a significant voting issue where RBC GAM's position could impact the result. We do not borrow shares in order to exercise additional proxy voting rights.

Proxy Voting Guidelines

Our custom Proxy Voting Guidelines have been developed through our internal expertise and resources and with reference to leading independent research firms. These guidelines are published on our website (www.rbcgam.com) for the information of clients and to assist issuers in understanding our approach to proxy voting. The Proxy Voting Guidelines are comprehensive and set out detailed guidelines on areas that include:

- the structure and independence of the board of directors;
- executive management and director compensation;

- takeover protection;
- shareholder rights; and
- environmental and social shareholder proposals.

We review and update our guidelines on an annual basis as corporate governance best practices evolve. All changes are reviewed and approved by our Proxy Voting Committee and a summary of changes is made available to our clients.

Proxy Voting in the Japanese Market

The RBC GAM Proxy Voting Guidelines are applied only in jurisdictions with a similar common law governance framework. For all other countries, including Japan, we apply the Institutional Shareholder Services Inc. ("ISS") country- or region-specific voting guidelines. However, as further described below. RBC GAM reviews all vote recommendations from ISS internally, regardless of whether a vote recommendation is based on our own Proxy Voting Guidelines or the ISS country guidelines, and will change a vote if we feel that it is in our clients' best interest to do so.

Proxy Voting Process

The exercise of voting rights requires an ongoing assessment of a company's management and directors, its ESG practices and the impact a vote may have on the value of the company's securities. Our CGRI team is responsible for administering our proxy voting in accordance with our Proxy Voting Guidelines. In particular, two members of the CGRI team are dedicated to proxy voting and ensuring that every ballot item is reviewed before our vote is registered. Where necessary, we rely on research on management performance and ESG issues drawn from portfolio manager and analyst due diligence, information provided by leading independent research firms, including ISS and Glass Lewis & Co., and involvement in organizations such as ICGN, CII and CCGG. In order to facilitate the involvement of our portfolio managers in proxy voting, we provide them with a report that details the proxy voting issues that must be voted for each of their investments during the following two weeks.

⁶ The RBC GAM Proxy Voting Guidelines are applied in Canada, the United States, the United Kingdom, Ireland, Australia, and New Zealand. In all other markets, RBC GAM utilizes the local proxy voting guidelines of a research provider.

This has resulted in greater participation by our portfolio managers in proxy voting and in ESG issues more generally. In addition, as part of the CGRI team's data integration efforts, investment teams receive proxy voting data for the portfolios they manage. This data can be leveraged by each team's dedicated portfolio engineer and integrated into each team's unique investment process.

We have retained ISS to provide proxy voting administration services on our behalf. ISS' custom research team makes a recommendation as to how each ballot item should be voted in accordance with our custom Proxy Voting Guidelines but we also review each recommendation prior to our vote being submitted. RBC GAM believes that it is important for asset managers to closely monitor the quality of the research and vote recommendations as well as the accuracy of the vote processing and reporting of our proxy voting service provider ISS. The CGRI team works closely with ISS to ensure that quality and accuracy are maintained, and this includes periodic meeting reconciliations, clarification on the application of the voting policy, and providing feedback and recommendations on guideline changes.

As described in detail above, from time to time, instances may arise where RBC GAM believes it is in the best interests of a client to deviate from the relevant proxy voting guidelines based on the unique circumstances of the company, or where our proxy voting may give rise to an actual or perceived conflict of interest. In these circumstances, our CGRI team, in consultation with our investment teams, will escalate the

matter to the Proxy Voting Committee who will determine how the proxies should be voted in accordance with our clients' best interests.

We often engage with issuers on proxy voting matters. These engagements may be initiated by our CGRI team, our portfolio managers or by the company. In all instances, we ensure that our communications are in compliance with our policies and all applicable securities regulations.

The proxy voting records of all of our funds (with the exception of client segregated funds) are publicly available on our website (www.rbcgam.com) and are updated quarterly. Our proxy voting records can be searched by fund or company name. In addition, we provide an overview of our proxy voting activities, including our proxy voting rationale in some instances, in our Annual and Semi-Annual CGRI Reports (described in more detail below), which are publicly available on our website. We may also provide additional customized proxy voting reporting to our institutional clients on a regular or ad-hoc basis. In order to enhance transparency and visibility to all of our clients, we are currently working on adding the rationales behind key resolutions, such as where we voted against the recommendations of management. In some circumstances, where we think it is appropriate and in our clients' best interests to do so, we will disclose in advance how we intend to vote on a particular issue and provide the rationale for our voting decision.

Principle 6:

Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

Since 2016 we have regularly published public reports about our stewardship and proxy voting activities. Each year, we produce an annual and semi-annual CGRI report that includes information on our stewardship activities such as engagements, proxy voting, research and surveys, new strategies, regulatory engagement, collaborative initiatives with other shareholders, and achievements related to our responsible investment strategy. As noted above, the proxy voting records of our publicly offered mutual funds are publicly available and are updated quarterly. In addition, we provide our institutional clients with detailed quarterly reports on matters of interest to each client, including performance, valuation, carbon footprint, and our proxy voting and stewardship activities. Finally, we file annual Transparency Reports with the United Nations Principles for Responsible Investment initiative ("PRI"). We disclose those reports and the grading provided by the PRI on our website.

Our investment teams may produce regular reports for their clients as well, covering stewardship activities like engagement case studies and proxy voting, as well as updates to their ESG integration approaches where relevant. For example, the RBC Global Equity team provides quarterly Owners Perspective reports to clients and the RBC Emerging Markets Equity and RBC Asian Equity teams produce annual ESG reports for their clients. Many teams, such as the RBC European Equity team, also publish additional topical articles on material ESG topics, which are published online and shared with clients. As our clients' needs evolve, we are continuously improving our reporting and product solutions to meet those needs. For example, in 2020, we released our updated Approach to Climate Change, recognizing the material risks and opportunities that climate change poses across clients and the investments we manage.

Principle 7:

To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.

RBC GAM's purpose is to deliver exceptional investment outcomes and valued insights to clients. We measure our performance against the specific investment goals of our clients and the investment mandates that we manage on their behalf. Our investment teams oversee the performance of their investments and conduct extensive research and analysis on an ongoing basis. Our investment management teams have a common philosophical approach which is rooted in the pursuit of deep fundamental knowledge and a belief in the benefits of advanced investment and risk management tools to promote consistency and minimize the impact of behavioural bias. While each of our investment teams aim to create value through their specialized disciplines and processes, they are able to leverage the broad range of tools that exist within RBC GAM to assist in portfolio construction, security selection, trade execution, and comprehensive performance measurement and attribution. Those tools assist our investment teams in monitoring their investments by helping to:

- expand access to information and enhance data analysis;
- position comprehensive portfolio modeling and management systems at the centre of investment decision making;
- take advantage of the benefits of integrating fundamental, technical and quantitative analysis;
- provide robust and comprehensive risk management; and
- provide deep and thorough performance analytics.

We also track client satisfaction to ensure that we are effective in serving our clients' best interests, and our responsible investment activities are continuously evolving accordingly. As noted in more detail under Principle 3, to assist in the ongoing monitoring of ESG-specific issues, our investment teams have access to current research on ESG risks and opportunities relevant to specific issuers,

industries and countries, along with broad-based thematic research relevant to general ESG themes. In order to contribute positively to the dialogue around sustainable growth of our investee companies, the CGRI team has brought internal and external resources to the investment teams, including a climate education series where we host experts to share their knowledge and expertise with our investment teams, climate engagement guides for different sectors and enhanced research on material ESG topics. Research is done in-house by the CGRI team members and also sourced from multiple external research providers to ensure multiple perspectives are considered.

In addition, active stewardship through the ongoing monitoring of our investments is a core part of our investment process. RBC GAM's portfolio managers and our CGRI team meet with our investee companies on an ongoing basis to address material issues. By utilizing both portfolio managers and the CGRI team we bring together a broader range of skills and depth of knowledge which help to make our dialogue with investee companies more effective. In addition to having the right people participating in these engagements, it is also important to document the goals of each meeting and track each company's progress against those goals. By doing so, we ensure that we can monitor the progress of individual investee companies and prepare for future meetings. Good record keeping also allows us to provide appropriate and timely reporting of our engagement activities to our clients.

We recognize the potential benefits from collaboration with other like-minded asset owners and asset managers when engaging with investee companies. Not only does this allow us to exert greater influence on investee companies, it also allows us to consider a range of views on the issues and help us to refine our analysis and ultimately how we choose

to approach the issue with the investee company. We view dialogue with other investors on these issues as one of the tools we can use to improve our overall stewardship activities.

Furthermore, we are pleased to receive external validation in the effectiveness of our active stewardship activities. For example, every year, as a signatory to the PRI, we file our RI Transparency Report. The PRI assesses all signatories' approaches to the Principles, and we have been encouraged by a history of strong scores. This past year the RBC Global Equity team was recognized with the Sustainable Equity

Manager of the Year 2019 Award by Professional Pensions. The Professional Pensions Investment Awards celebrate industry excellence among asset managers within UK workplace pension schemes and is based on performance and relative growth in assets.

RBC GAM views stewardship as something that is constantly evolving both in terms of the expectations of our clients and our own desire to constantly improve every aspect of what we do. We continuously evaluate the effectiveness of our stewardship activities and make improvements where required.

Principle 8:

Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.

Although this principle does not directly apply to RBC GAM or any of its affiliates, we provide an overview of our relationship with our proxy voting service provider.

RBC GAM retains the services of Institutional Shareholder Services (ISS) to manage and execute proxy votes. As mentioned above, we vote all of our shares independently and in accordance with the RBC GAM Proxy Voting Guidelines which are applied in Canada, the United States, the United Kingdom, Ireland, Australia, and New Zealand. In all other markets, including Japan, RBC GAM utilizes the local proxy voting guidelines and recommendations of ISS. Our CGRI team reviews each vote to ensure ISS' voting recommendations are in our clients' best interest.

Due to the detailed nature of the RBC GAM Proxy Voting Guidelines, customized implementation is required. RBC GAM meets with ISS on an annual basis in advance of the upcoming proxy voting season to confirm the desired implementation of our Proxy Voting Guidelines. This involves a detailed walkthrough of the most recent updates to our Proxy Voting Guidelines as well as a review of ISS' benchmark voting policy updates - including any to specific local guidelines - to determine appropriate implementation. Further, throughout

the year, RBC GAM works directly with ISS' custom research team as new situations emerge or to refine implementation. Moreover, since we utilize ISS' proxy voting recommendations in Japan, we obtain a detailed report from ISS' Japan Research Team outlining governance trends and proxy voting policy changes ahead of each Japanese proxy season. The report is reviewed by the CGRI team and shared with the relevant investment teams. This allows us to better understand ISS' approach and rationale behind their recommendations in the upcoming Japanese proxy season. Consequently, feedback is often provided to ISS through an open line of communication and ongoing dialogue.

After proxy season, RBC GAM and ISS meet to discuss proxy season outcomes and voting trends, which can identify outliers or instances where further implementation refinements are required. RBC GAM also identifies instances and themes where consistent vote overrides or refinements were required throughout proxy season and communicates these details to ISS in order to facilitate any further customization.

RBC Global Asset Management

RBC Global Asset Management is a leader in responsible investment. For more information about our approach, visit <u>rbcgam.com/ri</u>.

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