# Message from the Chair of the Pension Plan Management Committee



Helping clients thrive and communities prosper is core to our Purpose and has always been a major reason why RBCers have come to work each day over the last 150 years. We know it takes a great workplace for people to be their best and RBC is committed to support you both at work and in reaching your personal goals. One of the ways we do this is by helping you plan and save for the future.

The RBC Retirement & Savings Programs provide many features for building long and short term savings that support you through different phases of life. The **Pension Plan Management Committee (PPMC)** helps protect the interests of RBC plan members by ensuring that the pension and savings plans have a strong governance and compliance structure in place.

The plan achieved a 10-year average return of 8.6%, outperforming our benchmark return of 7.2%. This outperformance was attributed to active management of the plan's investments.

#### Defined Benefit (DB) Plan performance

The funded status of the DB plan in Canada remained sound during 2018 despite volatile markets. On a **going-concern basis**<sup>1</sup>, our largest plan in Canada, the Royal Bank Pension Plan was **122**% funded as of January 1, 2019. On a **solvency basis**<sup>2</sup>, the Royal Bank Pension Plan was **95**% funded as of January 1, 2019.

The PPMC monitors the assets of the DB plan, ensuring an appropriate level of risk is taken in light of the long-term nature of the plan's obligations (the pensions earned by plan members) while looking for compelling long-term investment returns and opportunities.

#### **Defined Contribution (DC) Plan features**

The DC plan includes many features – designed to support plan members with their retirement savings objectives – including both automatic and matching contributions from RBC.

In addition, RBC aims to provide a set of investment choices under the DC plan that enable plan members to construct and maintain a well-diversified investment portfolio, in addition to providing solutions for those who prefer a more "hands-off" investment approach. Going-concern funding

122%

Solvency funding

1

95%

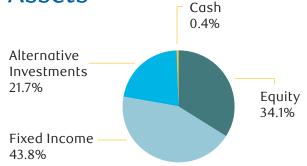
<sup>&</sup>lt;sup>1</sup> The **going concern** funded status is a measure used to determine the plan's liabilities assuming that both the Royal Bank Pension Plan and RBC continue indefinitely into the future.

<sup>&</sup>lt;sup>2</sup> The **solvency** funded status is another measure that is required by pension regulators. It determines the funded status of the DB plan under a hypothetical scenario where the plan is terminated immediately and all benefits are paid to members. Assumptions used to determine the funded status are prescribed by legislation.

# Defined Benefit Pension Plan Assets

# Defined Benefit Pension Plan – Asset Mix (December 31, 2018)

The asset mix policy reflects the plan's long-term investment strategy. As of December 31, 2018, the actual asset mix was within the allowable range of its policy.



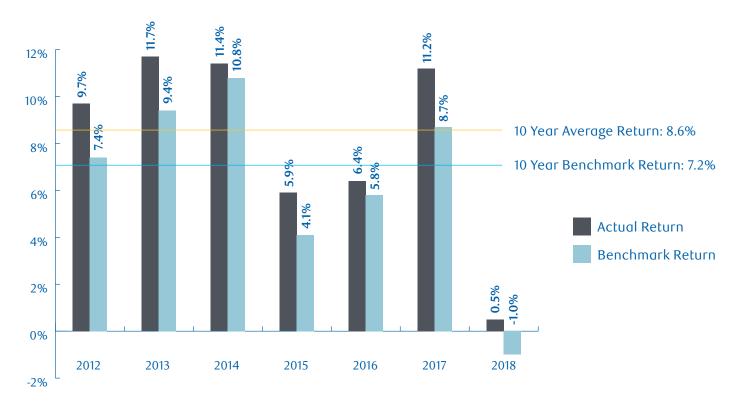
#### **Investment Policy vs. Actual Asset Mix**

Asset Class	Policy Allowable Range	Strategic Policy	Actual Dec 31, 2018
Equity	25% to 55%	36%	34.1%
Fixed Income	25% to 55%	42%	43.8%
Alternative Investments <sup>1</sup>	5% to 30%	22%	21.7%
Cash	0% to 5%		0.4%

Alternative investments include infrastructure, private equity, hedge funds, commodities, real estate, and any other investment that does not fall in the traditional asset classes of stocks, bonds or cash. Because alternatives tend to behave differently than typical stock and bond investments, adding them to a portfolio may provide broader diversification, reduce risk, and enhance returns.

#### Royal Bank Pension Plan – Annual Performance

Our active management strategy continues to be effective, consistently achieving results above our benchmark. In 2018, the DB pension plan assets earned an annual return of **0.47%**, outperforming our benchmark return of **-0.98%**.



## **Canadian Pension Plan Assets**

Statement of Changes in Net Assets Available year ended December 31 (in thousands of dollars)	e for Benefits 2018 \$	2017 \$
Defined Contribution Fund		
Net assets at beginning of year	1,125,942	958,859
Increase (decrease) in net assets		
Contributions by the employer	73,327	63,951
Contributions by members	62,528	54,695
Investment income (loss)	(29,749)	104,897
Withdrawals	(67,808)	(56,460)
Net assets at end of year	1,164,240	1,125,942
Defined Benefit Fund		
Net assets at beginning of year	12,412,002	11,249,921
Investment income (loss)		
Interest income	179,040	146,900
Dividend income	151,264	128,008
Income (loss) on derivatives	(19,157)	18,615
Other investment income	73,964	4,375
Change in market value of investments	(341,207)	933,603
Transaction costs	(2,401)	(2,449)
	41,503	1,229,052
Contributions		
Contributions by the employer	357,822	404,759
Contributions by members	48,846	49,352
	406,668	454,111
	448,171	1,683,163
Benefits and expenses		
Pension benefits	(431,740)	(408,436)
Termination benefits	(72,243)	(70,725)
Management and other professional fees	(41,712)	(41,921)
	(545,695)	(521,082)
Increase (decrease) in net assets	(97,524)	1,162,081
Net assets at end of year	12,314,478	12,412,002

Management and Other Professional Fees (in thousands of Canadian dollars)	2018 \$	2017 \$
Investment management fees <sup>1</sup>	26,754	27,926
Professional fees	2,315	2,367
Trustee fees	4,328	3,706
Administration fees	7,939	7,500
Other	376	422
Total	41,712	41,921

<sup>&</sup>lt;sup>1</sup> Investment management fees shown represent direct expenses (billed to the plan explicitly), in line with the expenses disclosed on the plans' financial statements. Indirect expenses (expenses that are deducted directly from the funds by the asset manager) in 2018 totaled \$57.5 million.

Defined Contribution Investments year ended December 31, 2018 (in thousands of dollars)	Fair Value \$	DC Assets %
PH&N Money Market Fund	48,130	4.1
PH&N Total Return Bond Fund	20,515	1.8
Blackrock Canadian Bond Index Fund	35,174	3.0
Blackrock Balanced Index Fund	66,195	5.7
RBC Balanced Fund	95,629	8.2
Blackrock Cdn Equity Index Fund	74,494	6.4
RBC Canadian Equity Fund	119,069	10.2
Blackrock US Equity Index Fund	193,121	16.6
Blackrock International Equity Index Fund	70,501	6.1
Capital Global Equity Fund	125,462	10.8
Capital International Emerging Markets Opportunity Fund	8,080	0.7
PH&N Life time 2015 Fund	2,929	0.3
PH&N Life time 2020 Fund	12,153	1.0
PH&N Life time 2025 Fund	26,656	2.3
PH&N Life time 2030 Fund	35,075	3.0
PH&N Life time 2035 Fund	44,856	3.8
PH&N Life time 2040 Fund	48,984	4.2
PH&N Life time 2045 Fund	96,903	8.3
PH&N Life time 2050 Fund	40,314	3.5
Total investments	1,164,240	100.0

Counterparty Distribution: Debt I (in thousands of dollars)	2018 (% of category)	2017 (% of category)
Government of Canada	(% of category)	(% of category)
Provinces and municipalities	42.9	4.5
'	42.9 53.4	43.0 52.5
Corporate and other	100.0	
Coographical Distribution Fauity	11111	100.0
Geographical Distribution - Equity Canada		26.7
	31.5	36.7
United States	36.7	35.4
Europe (excluding UK)	14.1	12.8
Emerging markets	7.9	8.0
United Kingdom	6.3	4.1
Japan	2.7	2.1
Asia (excluding Japan)	0.8	0.9
	100.0	100.0
Sectoral Distribution - Equity Inve	stments	
Financial services	21.8	24.9
Energy	7.5	8.5
Information technology	10.5	18.9
Consumer discretionary	13.5	11.7
Materials	4.5	4.8
Industrial	9.9	9.9
Health Care	9.4	7.7
Consumer staples	5.7	6.4
Telecomunications	12.6	3.3
Utilities	2.5	2.0
Real estate	2.1	1.9
	100.0	100.0

# Pension Plan Management Committee Membership

The Pension Plan Management Committee ("PPMC") is a committee established by the Board of Directors of the Royal Bank of Canada, responsible for oversight of policy, funding, investment, management and administration issues arising with respect to the RBC Canadian Pension Plans. The PPMC meets five times a year and is comprised of the following members:



**Neil Skelding** – *Chair since* 2012 – is President & CEO of RBC Insurance. Neil has global responsibility for RBC's insurance business which includes a wide range of travel, life, health, home, auto, wealth and reinsurance products and solutions, as well as creditor and business insurance services, for individuals, businesses and groups.

Neil joined RBC Insurance in January 2003 and was appointed to his current position in September 2004. As Chair of RBC's Pension Plan Management Committee, Neil is responsible for leading a cross-functional team that oversees RBC's primary pension plans globally. Neil earned an engineering degree from Ryerson University and an MBA from McMaster University with a major in finance.



Carol McNamara – Secretary since 2015 – is Senior Vice President, Compensation & Benefits for RBC. Carol has overall responsibility for compensation and benefit program design and governance ensuring that programs are aligned to RBC's compensation philosophy and principles. Carol also oversees employee relations and Human Resources policy governance. Carol joined RBC in 1989 and held progressively senior roles in the General Counsel Group, including Vice President, Associate General Counsel and Secretary before being appointed to her current position in 2014. Carol earned a Bachelor of Arts (political science) from the University of Toronto and a law degree from Queen's University.



**Katherine Gibson** – *PPMC member since November 2016* – is Senior Vice President, Finance & Controller for RBC and is responsible for Head Office Finance including performance management, external reporting, accounting policy and finance operational risk. In addition, Katherine is responsible for Wealth Management and Insurance overall finance activities. She is a member of the CFO Operating Committee. Katherine is also the Executive Co-Chair of the Advancement of Women in Leadership committee (AWL) at RBC. Katherine is a Chartered Accountant and a Certified Public Accountant (Illinois). She also holds a Bachelor of Commerce Degree, with Honours, from the University of Manitoba.



Helena Gottschling – Chief Human Resources Officer since June 2017 – Helena Gottschling is RBC's Chief Human Resources Officer (CHRO) with global responsibility for Human Resources. Together with other members of Group Executive, Helena is responsible for setting the overall strategic direction of RBC. Helena joined RBC in 1985, holding progressively senior roles in Retail Banking, Human Resources and National Office. She re-joined Human Resources in 2006 and held a number of executive roles before being appointed CHRO in 2017. Helena holds a Bachelor of Business Administration degree from Simon Fraser University in Vancouver, British Columbia.

## Pension Plan Management Committee Membership

(Continued...)



James Salem – PPMC member since 2009 – is Executive Vice President and Treasurer of Royal Bank of Canada, and is responsible for the enterprise's capital, funding and liquidity management, as well as for asset liability management of the bank. Under Mr. Salem's leadership, RBC's Corporate Treasury executes term funding and capital transactions to optimize the bank's debt and equity structure, in addition to transactions carried out for managing discretionary fixed income portfolios and executing the bank's asset liability management strategies. He has also chaired the Pension Plan Investment Sub-Committee since 2009.

James has been with RBC since 1989. He is a Chartered Financial Analyst and is a Certified Risk Professional charter member.



Martin Thibodeau – *PPMC member since 2015* – is President, British Columbia headquarters of RBC Royal Bank and is responsible for carrying out RBC Royal Bank's strategic objectives and for managing business priorities in British Columbia. He also oversees the implementation of policies and programs that promote the interests of RBC clients, employees and shareholders.

Martin joined RBC in 1989 and has worked primarily in Personal & Commercial Financial Services. In recent years, he held a number of senior management positions in various regions of Canada as well as at the National Office. He was appointed to his current position in 2018.

Martin has an MBA from ESG-UQAM and holds the Fellow, Institute of Canadian Bankers designation.



**Damon Williams** – *PPMC member since 2013* – is CEO of RBC Global Asset Management (RBC GAM), the asset management division of Royal Bank of Canada (RBC). He is also the CEO and Ultimate Designated Person of RBC GAM in Canada (RBC Global Asset Management Inc.) and sits on that firm's Board of Directors.

Damon joined Phillips, Hager & North Investment Management (PH&N IM) in 2005 as an institutional portfolio manager specialized in fixed income and became part of RBC GAM when the firm was acquired by RBC in 2008. Damon served as head of the institutional business globally and as President of PH&N IM (the institutional asset management business in Canada), before becoming CEO of the global and Canadian businesses in 2015.

Damon is a Fellow of the Canadian Institute of Actuaries and a Fellow of the Society of Actuaries. He also holds a Bachelor of Mathematics, with Honours, from the University of Waterloo and is a CFA charterholder.