



Mid Caps: Investing In The Sweet Spot

Introduction

The U.S. equity market is comprised of a broad array of companies – large and small, growing and mature, profitable and unprofitable. To simplify this breadth, categorization methodologies have arisen resulting in commonly accepted measures of the U.S. market such as the Dow, S&P, and Russell Indices. The primary determinant of these indices is size. Within the large indices, notably the Dow, S&P 500, and Russell 1000, the largest companies (mega-caps) have a disproportionate impact on the returns of the indices as these indices weight individual holdings by their market cap size rather than by their fundamentals or valuation attractiveness.

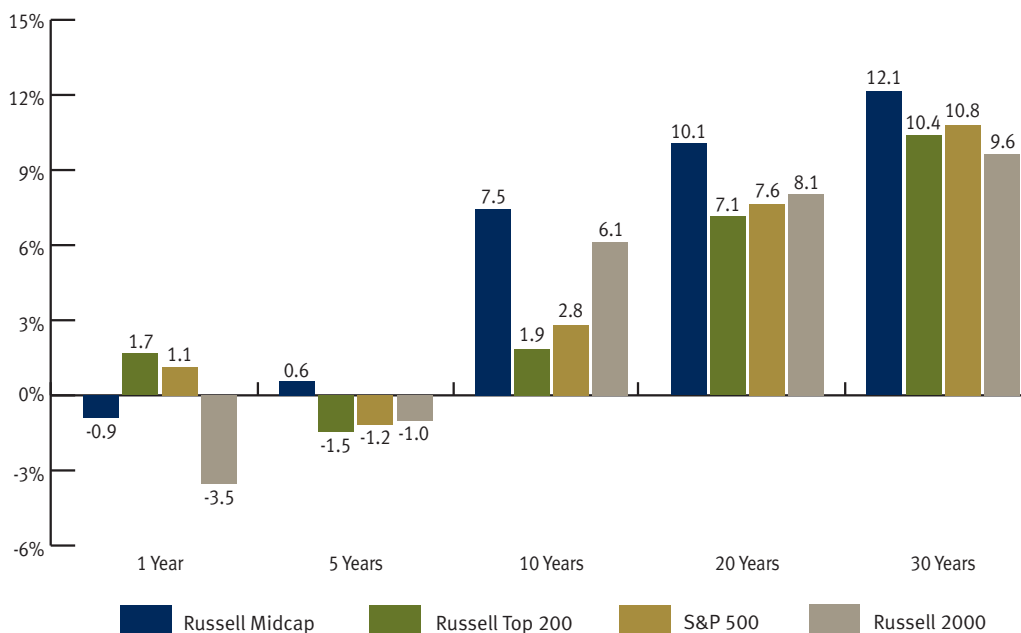
In an effort to diversify the investment impact of mega caps, investors seek out alternative equity indices. This has led to the acceptance of small caps as an alternative, as benchmarked most commonly by the Russell 2000 Index, because small cap equities have little to no overlap within the large indices. However, caught in between this diversification strategy is a very large and structurally attractive set of companies, the mid caps, that have outperformed both the large and small cap indices over the past 30 years as well as the majority of the shorter rolling periods within it.

Strong Performance

Mid-cap companies are typically defined as having a market capitalization range that falls between \$1 billion and \$12 billion. Like large cap companies, mid caps are generally mature, profitable businesses with financial resource depth, professional management teams, and ample trading liquidity. In addition, mid caps offer many of the favorable attributes of small cap companies – business focus and material upside growth potential. In fact, many mid-cap companies represent the evolution of the most successful small cap companies. The combination of these characteristics provides two key attributes for long term investors: strong, historical returns and growth opportunities.

Chart 1: Mid Cap Stock Performance vs. Large Cap and Small Cap Stocks

September 1980 - September 2011 (not annualized if less than 1 year)



Mid cap stocks, as measured by the Russell Midcap Index, have outperformed mega cap, large cap and small cap stocks, as measured by the Russell Top 200, S&P 500 and the Russell 2000 indices respectively (see chart 1).

Past performance is no guarantee of future results.

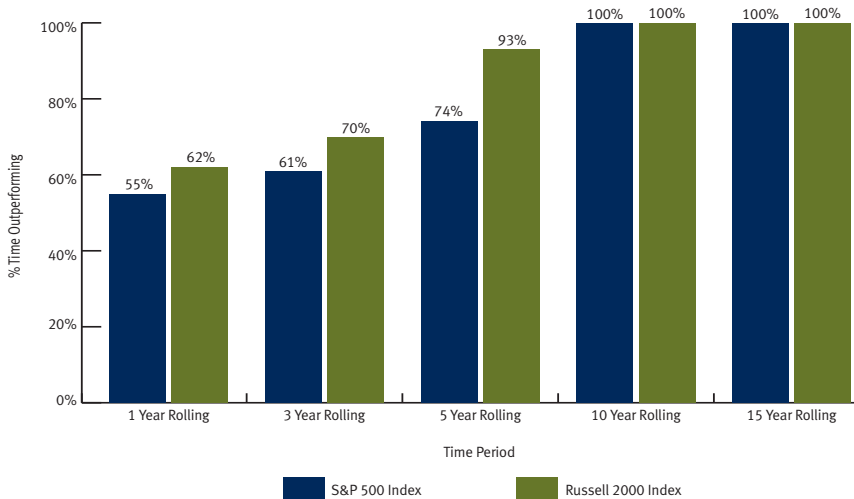
The Merit of Mid Cap Value

Mid Caps Historically Deliver Better Performance Than Large Caps

Mid caps generally have had lower dividend yields than the large cap stock universe, and have generated a higher percentage of their returns from price appreciation. They are therefore considered longer duration assets than large cap stocks, and consistently outperform when time horizons are extended (Chart 2). In the last decade, mid caps have had the best total return versus large caps and small caps over one-year, five-year and 10-year time frames.

Chart 2: Mid Cap Stocks Rolling Performance vs. Large Cap & Small Cap Stocks

July 1990 - September 2011



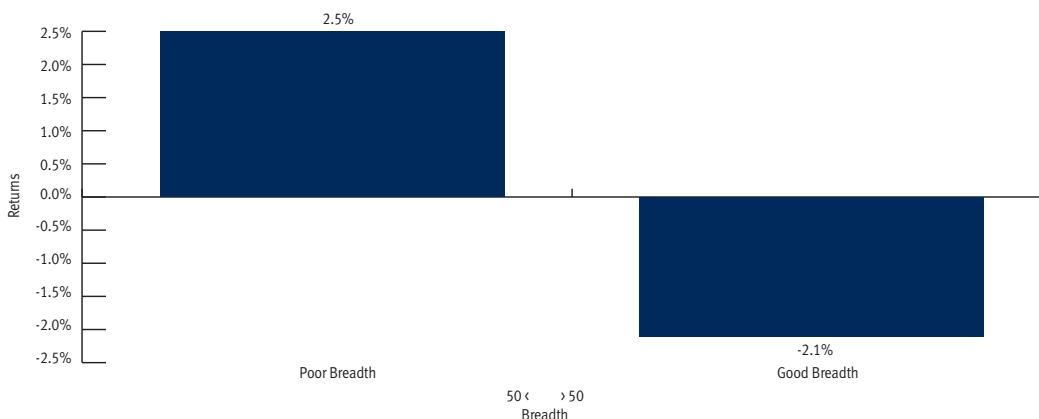
Mid cap stocks have historically provided significantly better performance over the long term than both large cap (S&P 500) and small cap (Russell 2000) stocks. For all 1-year rolling periods for the past 20 years, mid caps outperformed large caps and small caps almost 60% of the time. That number reaches 100% when 15-year rolling periods are used.

Source: Zephyr StyleADVISOR

Active Management Is Key

Actively managed mid cap portfolios offer investors a unique opportunity to outperform U.S. equity market indices. This is best understood by looking at “breadth,” which is the percentage of stocks within an index (in this case the Russell Midcap Index) that were up in price over a given time period. In 2009, the breadth of the Russell Midcap Index was very strong, with more than 87% of mid cap stocks rising in price. During that same time period, active mid cap strategies were weak relative to the index, but did provide the best absolute returns. In the past, when breadth has exceeded 50%, active strategies have tended to perform poorly (Chart 3). On the other hand when breadth has fallen below 50%, active managers of mid cap portfolios tended to beat the Russell Midcap Index by an average of more than 200 basis points. Given the possibility of a more muted outlook for stock markets, we estimate the breadth of the Russell Midcap Index will be closer to 50% and, following the historical precedent, active strategies may add value for investors.

Chart 3: Active Managers Tend to Perform Well When Breadth Narrows



Alpha - measures the difference between an actual return for a stock or a portfolio and its equilibrium expected return.

The breadth represents percentage of stocks that were up in the mid cap universe.

Source: Lipper Analytical Services, Russell Investment Group, BofA Merrill Lynch Small Cap Research

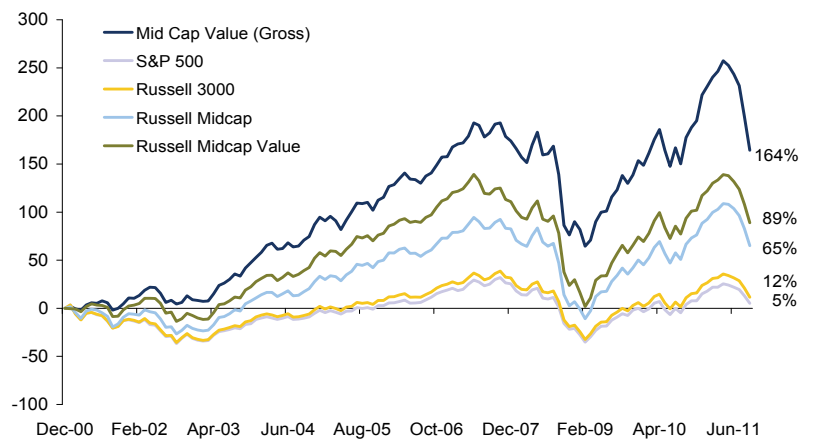
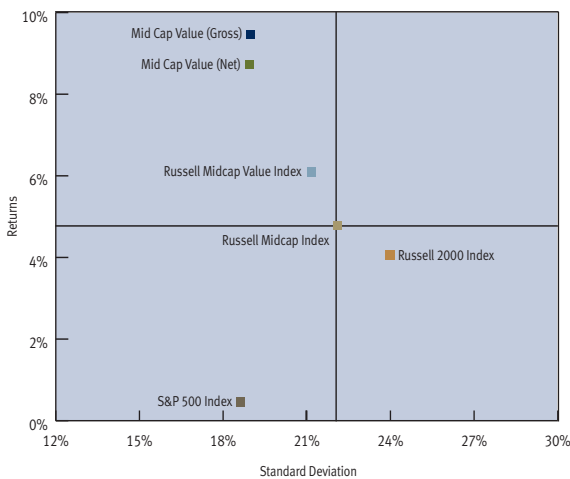
Ability to Add Value

While the mid cap indices have performed strongly and consistently versus both the large and small alternatives, the breadth and diversity of companies in the mid cap universe allow the space to be a fertile ground for stock picking to create a diversified portfolio of companies that best represent the fundamental strengths of the mid cap universe at attractive valuation levels. This is the goal of the RBC GAM (US) Mid Cap Value strategy and its successful implementation over the past 10 years has provided clients competitive returns with less volatility.

Chart 4: Mid Cap Value Strategy Excess Return

January 2001 - September 2011 (Single Computation)

The RBC GAM (US) Mid Cap Value strategy offers clients competitive returns and subjects investors to less volatility, as measured by standard deviation.



Source: Zephyr StyleADVISOR, Universe is comprised of the eVestment Alliance (eA) Mid Cap Value Equity Universe.

Returns are presented gross of management fees and include the reinvestment of all income. All returns for periods greater than one year are shown on an annualized basis. Inception of the performance record is 1.1.01. The RBC GAM (US) Mid Cap Value Equity composite is presented as supplemental to the "Performance Presentation & Disclosures" appendix to these materials. The appendix contains additional GIPS®-required disclosures and important information regarding calculation of performance data and includes net of fees performance returns. Past performance is not a guarantee of future results.

Standard Deviation - an absolute (non-relative) measure of the volatility used to represent risk. It offers a probable range within which a portfolio's realized returns is likely to deviate from its average return. The standard deviation of performance can be calculated for each security and for a portfolio as a whole. The greater the degree of dispersion, the greater the past volatility.

Conclusion

We believe an allocation to the mid cap equities is an important way to both diversify and potentially enhance returns within one's U.S. equity exposure. The RBC GAM (US) Mid Cap Value strategy brings a successful approach to the mid cap space which seeks to build upon the fundamental attractiveness of the segment in a manner based on valuation discipline that reduces risk.

Mid Cap Value Equity: Performance Presentation & Disclosures

Period	YTD Gross	YTD Net	Russell Midcap Value Index	Composite Dispersion	Number of Accounts	Market Value (\$MM)	Percent of Firm Assets	Total Firm Assets
2001	10.74%	9.81%	2.33%	N/A ¹	1	\$5.9	–	\$15,061.3
2002	-1.59%	-2.42%	-9.64%	N/A ¹	1	\$5.8	–	\$20,245.8
2003	40.18%	39.03%	38.07%	N/A ¹	1	\$8.1	–	\$22,518.8
2004	27.50%	26.44%	23.71%	N/A ¹	1	\$26.7	–	\$26,858.3
2005	10.58%	9.65%	12.65%	N/A ¹	1	\$29.5	–	\$27,018.8
2006	19.57%	18.85%	20.22%	N/A ¹	2	\$13.6	<1%	\$28,358.1
2007	6.42%	5.89%	-1.42%	0.17%	2	\$12.4	<1%	\$32,045.1
2008	-30.64%	-30.99%	-38.44%	0.32%	2	\$8.6	<1%	\$32,140.1
2009	33.38%	32.65%	34.21%	0.04%	3	\$19.9	<1%	\$44,674.0
2010	26.91%	26.17%	24.75%	0.08%	4	\$134.4	<1%	\$43,779.5
2011 YTD	-17.88%	-18.11%	-13.01%	0.09%	4	\$121.3	<1%	\$38,086.3

¹N/A – Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Compliance Statement: RBC Global Asset Management (U.S.) Inc.™ claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. RBC GAM (US) has been independently verified for the periods January 1993 through December 2010.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Mid Cap Value Equity Composite has been examined for the periods January 2001 through December 2010. The verification and performance examination reports are available upon request.

Description of the Firm: RBC GAM (US) is a registered investment adviser headquartered in Minneapolis, Minnesota. RBC GAM (US) was founded in 1983 as Voyageur Asset Management Inc. (VAM). RBC GAM (US) was purchased in December 2000 by RBC Capital Markets Holdings (USA) Inc., formerly known as RBC Dain Rauscher Corp.

For the purpose of complying with GIPS, effective 12.31.09 total firm assets include all discretionary and non-discretionary assets managed by RBC GAM (US). From 1.1.06 to 12.31.09 the wrap fee/SMA business of RBC GAM (US) was defined as a separate division under the name Voyageur Advisory Services and was excluded from the GIPS-defined firm. Prior to 1.1.06, the GIPS-defined firm included all discretionary and non-discretionary assets managed by RBC GAM (US).

The firm maintains a complete list and description of all composites, which is available upon request.

Composite Description: The Mid Cap Value Equity Composite contains accounts that invest in a diversified portfolio of mid cap companies that we believe are undervalued by the market.

Benchmark: The benchmark for this composite is the Russell Midcap Value Index. The Russell Midcap Value Index measures the performance of those Russell Mid Cap companies with lower price-to-book ratios and lower forecasted growth values. Index returns are provided for comparison purposes to represent the investment environment existing during the time periods shown. An index is fully invested, includes the reinvestment of dividends and capital gains, but does not include any transaction costs, management fees, or other costs. Holdings of each separately managed account in a composite will differ from the index. An investor may not invest directly in an index.

Minimum Account Size: There is no minimum account size for this composite.

Derivatives, Leverage, and Short Positions: None of these strategies are currently employed by any accounts in this composite.

Composite History: This composite was created on 5.8.06 and has an inception date of 1.1.01. Performance through 5.5.06 represents the Mid Cap Value Equity track record established by the Portfolio Management Team while affiliated with a prior firm. From 5.8.06 forward, composite performance represents accounts

managed by the same team of investment professionals at RBC GAM (US) using the same philosophy and process.

Cash Flow Policy: Composite policy for composites with more than three portfolios requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of at least 10% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite the first full month of being fully invested. Additional information regarding the treatment of significant cash flows is available upon request.

Composite Dispersion: The annual composite dispersion presented is an asset-weighted standard deviation, and represents the dispersion of annual results for the accounts in the composite for a full year. YTD dispersion represents the dispersion of the year-to-date returns of all accounts in the composite since the beginning of the year. Equal-weighted standard deviation was used prior to 2011. Partial periods and/or periods with less than two accounts in the composite for an entire year are marked "N/A" because they are not statistically meaningful.

Three Year Ex-Post Standard Deviation: The 2011 YTD Three Year Annualized Standard Deviation for the composite is 24.42, and for the Index it is 26.63. This statistic measures the volatility of returns for the composite and benchmark over the preceding 36-month period. It is marked "N/A" for the periods 2000 through 2009 because 36 monthly returns are not available for all periods and because it is not required for periods prior to 2011.

Performance Calculations: Results are based on all fully discretionary accounts meeting the composite definition, including those accounts no longer with the firm. Returns are shown in U.S. Dollars. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance is calculated using actual management fees. Prior to 5.8.06, net of fee performance reflects the maximum annual fee of 0.85% calculated and applied monthly. Beginning 5.8.06 and continuing through 12.31.09, one non-fee paying account was included in the composite. This account represented 19% of composite assets as of year-end in 2006, 22% in 2007 and 2008, and 13% in 2009. Advisory fees are described on this page and in Form ADV Part II. Additional information regarding policies for valuing portfolios, calculating performance, and preparing presentations is available upon request. Past performance is not indicative of future results.

Fee Schedule: 0.85% on first \$10 million; 0.70% on next \$15 million; 0.60% on next \$25 million; 0.50% on assets over \$50 million. RBC GAM (US) reserves the right to negotiate all advisory fees.

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