



RBC Participating Life Insurance 2023 Financial Update

RBC Growth Insurance
RBC Growth Insurance Plus



Insurance

An update from our portfolio manager

Interest rate and market volatility continues to be a focus for investors. It's always a good idea to monitor financial news, but we want clients to look beyond the short-term projections. Our target asset allocation is designed to achieve long-term investment goals. As we look forward through this long-term lens, we believe this portfolio will continue to provide added value through the product's investment horizon.

Fixed Income (50% target allocation)

Bond prices rallied in late 2023 which resulted in an overall positive return for this asset class. The 10-year Government of Canada rates rose to a peak in October and then declined with investor belief that BoC had finished hiking rates. Given the underlying laddered approach, the portfolio continues to benefit from yields at current levels. In addition, the expectation of the normalization in the inverted yield curve will further help these long duration products, given the current long end of curve being pressured by over-issuance.

Public Equities (25% target allocation)

Equity markets experienced a bounce back with the bulk of returns concentrated in a small group of mega-cap technology stocks. The exposure to these names provided significant uplift to the portfolio in 2023. On the other hand, this bifurcation also indicates that the broader equity market valuation remains at a reasonable level.

Real Estate (25% target allocation)

Notwithstanding a challenging economic environment for real estate sector in 2023, the fund continues to generate stable income and positive return. The uncertainty with office space will continue to exist, but the bifurcation of the quality is growing wider. The portfolio is diversified with significant exposure to industrial, necessity-based retail properties, growing multi residential properties, and well tenanted high quality office buildings. The fund continues to be highly selective in the allocation of new investments. We also expect to see more compelling opportunities on a risk adjusted basis from market dislocation and less capitalized owners.

The par fund portfolio return was 10.86% for the calendar year of 2023. We will continue to keep you informed regarding market updates and our participating account.

We hope this look back at 2023 and ahead at 2024 provides some valuable insights for you.

Hanling Zhou
Senior Director, Investment Management
RBC Insurance

Annualized Return for the Participating Account (%)^{1,2}:

Par Fund Yield

10.86

Jan 1, 2023 - Dec 31, 2023

Dividend Scale Interest Rate

6.00

April 1, 2023 - March 31, 2024

6.25

April 1, 2024 - March 31, 2025

Benchmarks (%):

S&P/TSX Composite Total Return Index³

11.75

Canada Aggregate Bond Total Return Index⁴

6.54

Consumer Price Index⁵

3.40

¹ The par fund yield is net of investment expenses.

² It is important to mention that while the return realized on the assets in the participating account influences how the dividend scale and dividends paid to policyholders are calculated, we apply a smoothing technique in order to amortize the yield fluctuations and promote stable long-term growth.

³ Total Return from website S&P/TSX Composite Index | S&P Dow Jones Indices (spglobal.com)

⁴ Bloomberg Canada Aggregate Total Return Index Unhedged CAD

⁵ Total CPI index v41690973, [Bank of Canada](https://www.bankofcanada.ca/).

Our long-term strategy at work

Our objective is executing on our long-term strategy of achieving strong risk-adjusted returns.

Liabilities for participating policies tend to be long in duration, therefore our active management involves aligning our future liabilities with current market opportunities that make sense for the long term. Our target asset mix includes a mix of 50% fixed income and 50% non-fixed income. This flexibility allows us to take advantage of market movements along the way.

In April 2022, to demonstrate our active management and long-term strategy, our investment team injected a total of \$5 million into the portfolio via a leverage strategy. The current fund mix is 48% corporate bonds (public bond fund), 28% commercial real estate (private fund), 24% Canadian equity (TSX index fund) and technology-based equity (Nasdaq index fund).

Our fixed income strategy involves laddering and active trading in fixed income, within the chosen bond fund. A laddering approach enhances liquidity, lowers mismatch risk and captures market opportunity under turbulent markets. Our real estate strategy is to invest in an actively managed, well diversified portfolio with a superior track record; location and high occupancy rates are key criteria for the underlying assets in the chosen fund. The leverage strategy enhances the portfolio yield with balanced risk and return trade-off.

The dividend scale interest rate (DSIR) is the interest rate used to calculate the investment component of the dividend scale and may be higher or lower than the market yield. This is because the DSIR takes into account factors beyond investment yield, such as future expected returns. In addition, smoothing techniques are applied to the DSIR to provide stability of dividend payments in the future.

The value of active management

Premiums paid by policyholders for RBC Growth Insurance and RBC Growth Insurance Plus fund the participating account and are invested by RBC Insurance's investment team. While our participating account is new, our investment team is made up of experienced fund managers that hold more than 100 years of collective asset management experience. We actively manage the par assets with the same discipline as our general fund and are constantly looking for and taking advantage of market movements that make sense in our prescribed ranges. This active management type value comes without the management expense ratios (MER) usually incurred by fund managers.

The RBC Life seed capital and its role

This participating account was initiated in 2021. RBC Life Insurance Company (RBC Life) has designated a total of \$40 million from the company's shareholder surplus as seed capital to support the new participating account value in its early years where initial upfront expenses incurred on new policies can be high. Our deployment of the seed capital is intended to provide liquidity and solidify our commitment to our participating insurance solutions.

- ✓ **Invested in fixed income** — Low volatility, high quality, fixed rates of return to ensure strong liquidity
- ✓ **Neutral to policyholders** — Policyholder dividends are determined irrespective of any seed capital
- ✓ **Solidifying our commitment to policyholders** — Total of **\$40 million** injected in 2021 to support the participating account by providing liquidity in the early years
- ✓ **Transfer back to shareholder** — when the participating account no longer requires the support of the seed capital, this will be returned to the shareholder, subject to approval from OSFI

Composition of the participating account

As of December 31, 2023

	Asset Class	Invested Assets	% of Total	Target
Fixed Income	Short Term	\$94,880	48%	50%
	Government Bonds	\$31,966		
	Corporate Bonds	\$2,535,175		
	Commercial Mortgages	\$0		
	Private Placement	\$0		
Non-Fixed Income	Common Shares	\$1,450,448	26%	25%
	Commercial Real Estate	\$1,427,004	26%	25%
Total		\$5,539,474	100%	100%

Bonds by Ratings	Invested Assets MV
AAA	\$55,923
AA	\$77,903
A	\$1,206,275
BBB	\$971,887
BB	\$27,329
NR	\$227,824
Total	\$2,567,142

Bonds by Sector	Invested Assets MV	% of Total
Government	\$31,958	1.24%
Corporate	\$2,535,175	98.75%
Municipal	\$8	0.00%
Total	\$2,567,142	100.00%

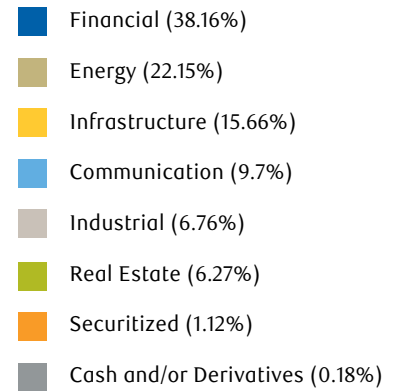
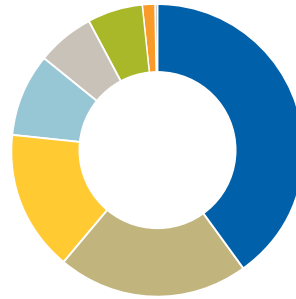
Public bond fund holdings

As of December 31, 2023

48% bonds — Top holdings include:

Toronto-Dominion Bank
Royal Bank of Canada
Bank of Nova Scotia
Bank of Montreal
Canadian Imperial Bank of Commerce
Bell Telephone Company of Canada
or Bell Canada (Quebec CA)
Rogers Corporation
Telus Corporation
Enbridge Inc.
TransCanada PipeLines Limited

Corporate bond allocation



Equity holdings

As of December 31, 2023

26% Canadian equity (TSX index fund) and technology-based equity (Nasdaq index fund)

Commercial real estate fund holdings

As of September 30, 2023

26% private commercial real estate fund

Top office and industrial holdings of this fund include:

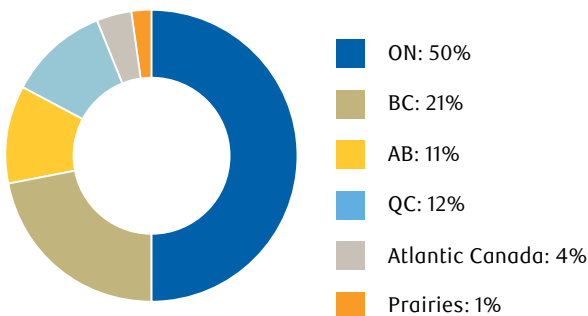
Office — 121 King, Toronto, ON

Office — Place de Ville, Ottawa, ON

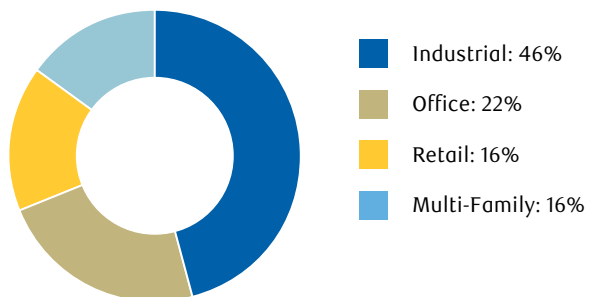
Industrial — Halifax Industrial Portfolio, Dartmouth, NS

Industrial — Manchester Canada, Canada-wide

Diversification by location



Diversification by property type



For more information, please contact your Insurance Advisor or visit rbcinsurance.com/growth-insurance.

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RBC Life Insurance Company.

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