



# RBC Institutional Consulting Program Brochure

**Form ADV, Part 2A: Firm Brochure**

**September 30, 2021**

*This RBC Institutional Consulting Program Disclosure Brochure provides you with information about the qualifications and business practices of RBC Wealth Management, a division of RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC ("RBC WM" or "RBC CM"), an indirectly wholly-owned subsidiary of Royal Bank of Canada. This brochure describes only the RBC Institutional Consulting Program offered by RBC CM. This document provides investors with information about RBC CM and our Institutional Consulting Program that should be considered before becoming a client of the program. Please contact us at (800) 759-4029 if you have any questions about the content of this brochure. This information has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or any state securities authority. Registration of an investment adviser does not imply a certain level of skill or training.*

Additional information about RBC Wealth Management is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **RBC Wealth Management**

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**Wealth  
Management**

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

## ITEM 2: MATERIAL CHANGES

In this Item 2, RBC CM is required to identify and discuss all material changes to its RBC Institutional Consulting Program Disclosure Brochure (the “Brochure”). Since the June 30, 2021, version of the Brochure, we have the following material updates.

### **Item 5. Fees and Compensation: section titled “Compensation to Financial Advisors”**

We have added language pertaining to certain conflicts of interest regarding monetary recruiting packages financial advisors receive when joining our firm from other firms. These recruiting packages could influence the type and amount of products and/or services recommended by a financial advisor. RBC CM manages this conflict by reasonably supervising the appropriateness of recommendations made by its financial advisors in accordance with all applicable regulatory requirements.

### **Item 9. Additional information: section titled “Disciplinary Information”**

It is alleged by the NYSE that RBC CM violated NYSE rule 3110(a) and (b) (supervision) by failing to establish and maintain a supervisory system and written supervisory procedures (WSPs) reasonably designed to detect and prevent errors in market on close (MOC) orders. On July 6, 2021, RBC CM entered into a letter of acceptance, waiver and consent with NYSE under which RBC CM consented to the sanctions and was censured and fined \$10,000.

### **Item 14. Client Referrals and Other Compensation**

We have added language to our disclosure regarding referral agreements whereby RBC CM pays third party solicitors a flat fee for client referrals to RBC CM.

RBC WM will provide you with a new Brochure without charge, upon request to your Financial Advisor. Our Brochure is also available on the SEC’s website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s website also provides information about any persons affiliated with RBC WM who are registered, or are required to be registered, as investment adviser representatives of RBC WM.

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## ITEM 4: ADVISORY BUSINESS

### A. About RBC Capital Markets

RBC Capital Markets, LLC (“RBC CM”) is a member of all principal securities and commodities exchanges in the United States including the New York Stock Exchange (“NYSE”) and has been registered with the SEC since 1977. Our ultimate parent company, Royal Bank of Canada, is publicly held and is a global, integrated investment services firm and one of the world’s leading banks. We are registered to act as a broker-dealer, investment adviser, and futures commission merchant. As a registered investment adviser, we complete a Part 1 of Form ADV, which contains additional information about our business and our affiliates. This information is publicly available through our filings with the SEC at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). This information is current as of the date of this document and is subject to change at our discretion.

### B. RBC Institutional Consulting Advisory Services Offered

This Brochure describes the institutional consulting services offered by the RBC Wealth Management division of RBC CM under the RBC Institutional Consulting Program (the “Program”) along with the features and fees. For the purposes of this Brochure, RBC Wealth Management and RBC Capital Markets, LLC will be collectively referred to as “RBC CM” and the institutional consulting services offered by RBC CM will be referred to as RBC Institutional Consulting.

Program services are provided pursuant to the RBC Institutional Consulting Program Agreement and Terms and Conditions, Exhibit A, and Exhibit B (collectively, the “Program Agreement”). The Program is a customized investment consulting service and is offered and available to both non-retirement and retirement accounts such as employer sponsored retirement plans, trusts and estates, businesses, endowments, foundations, health savings accounts, and other suitable investors. In the Program we owe a fiduciary duty to you under the Investment Advisers Act of 1940 (“Advisers Act”). When providing Non-Discretionary services (as described below) to ERISA qualified plans we are acting as a fiduciary under Section 3(21) of ERISA where applicable. When providing discretionary services (as described below) to ERISA qualified plans we are acting as a fiduciary under Section 3(38) of ERISA for the selected Discretionary Services, where applicable.

For investment consulting and other services rendered under the Program, you may choose to pay us a negotiated one-time flat fee, a negotiated annual flat fee, or a fee based on the value of your appointed assets

## 1. RBC Institutional Consulting Services

### a. Non-discretionary services available under the Program include the following:

All Clients in the Program may be provided non discretionary services under the Program as described below. You are under no obligation to take any action in response to the non-discretionary advice provided under the Program Agreement. Although we may provide guidance or recommendations, we do not make any of the actual decisions regarding your assets. Further, should you choose to implement any recommendations based on the service requested, you are under no obligation to do so through or with us.

#### Plan Review

Upon Client request, RBC WM may analyze the administration of the retirement plan, including employee comprehension of plan terms and satisfaction with the plan, and compare that with other plans in the industry that are of similar size and scope. In this process, RBC WM may use employee surveys, interviews, focus groups or other means that are mutually agreeable. RBC WM’s analysis will help evaluate the administration of the retirement program and identify plan improvements.

#### Plan Design Review

RBC WM may review the plan design. Based on information that the Client provides, RBC WM may recommend changes in the plan design to improve efficiency and reduce administrative burdens and costs.

#### Provider Search & Evaluation

We may assist you in evaluating and selecting other service providers, including third party administrators, custodians, record keepers and trustee or participant education providers.

#### Investment Policy Statement

We may assist you in creating and updating from time to time an investment policy statement (“Policy”). The Policy may identify the categories or asset classes of investments to be made available, provide guidance for monitoring and evaluating the performance of the investments and/or investment managers and, as appropriate, adding or changing investments or managers; and help allocate investment responsibilities among the various parties. Clients must include certain minimum investment review criteria in their Policy to receive Discretionary Services as described below.

## **Asset Allocation**

We may provide an asset allocation review designed to identify one or more investment portfolios for you based on certain information requested by us and provided by you.

## **Selection of Investment Managers**

If the service is selected, based on our understanding of your investment objectives and the consultation process, your RBC CM Financial Advisor (your “FA” or “Financial Advisor”) is available to consult with you regarding investment alternatives that may be compatible with your investment objectives. You may consult with your FA to select any investment manager that you believe is appropriate. In the event that we receive information that indicates a particular investment manager may no longer be suitable for you, we may recommend that you terminate your relationship with that investment manager. You are required to meet the individual requirements of each investment manager you select and to enter into an investment advisory agreement directly with the manager. We do not review or negotiate any investment manager’s investment advisory agreement on a client’s behalf. You are responsible for promptly bringing to our attention any material change in your investment guidelines or financial condition.

## **Selection of Investments**

RBC CM may provide assistance in selecting one or more suitable investments. We may use many sources of information and analysis about investments, including data provided by independent third parties. Your FA is available to provide such information to you to aid in selecting or monitoring investments. In addition, we monitor certain investments and may provide analysis about such investments as part of the Program. We do not necessarily monitor all investments that may be held or purchased by you, including employer stock funds, participant loans, and self-directed brokerage accounts. We have no discretionary trading authority with respect to your assets that are invested in investment funds. We do not assume responsibility for the performance of any investment fund selected by you that is not recommended by RBC CM.

## **Investment Model Portfolio Consulting**

RBC CM may provide risk-based model portfolio advice. RBC CM may recommend certain investment choices from your investment menu within the model portfolios and recommend that you rebalance the models periodically in order to adhere to the target asset allocation for each portfolio. RBC CM may provide this service and model portfolios to third party investment managers and other financial professionals to assist them in managing the accounts of their clients.

## **Social Screening**

For endowments, foundations, trusts and health savings accounts, RBC CM may provide assistance in social screening of equity and/or fixed income securities intended for purchase by investment managers.

## **Participant Education Services**

For retirement plans, including employee benefit plans or sponsors of such plans (collectively, “Plans”, and individually, a “Plan”), we may assist you in communicating with and educating your employees (including plan participants), as applicable, on investment-related topics. This assistance may include planning and/or conducting informational, educational meetings, or sessions and preparing various written materials. Our services do not include the provision of investment advice, within the meaning of ERISA, to such plan participants and employees.

### **b. Discretionary Services**

Certain defined contribution retirement plan clients that meet eligibility requirements may elect to receive any of the non-discretionary services listed above in addition to the following discretionary investment services:

## **Discretionary Investment Menu Management**

If you select discretionary investment management services you grant us discretion over the selection and implementation of the Plan investment menu and appoint RBC CM as the Investment Manager as defined in Section 3(38) of ERISA. RBC CM will exercise discretion in accordance with the Plan’s Policy including any written restrictions as defined by the Plan. RBC CM will not have discretion over employer stock funds, participant loans, and self-directed brokerage accounts. While RBC CM is granted discretion over the investment lineup including implementation, RBC CM may require assistance from the Plan if third-parties will not implement investment menu changes within a reasonable timeframe. RBC CM does not assume discretion over a plan participant’s investment selection nor does RBC CM provide fiduciary advice to such participants.

## **Default Investment Option**

RBC CM may select a Plan’s default investment option that will receive the funds of any Plan participant that has not affirmatively selected an investment option from the investment menu. RBC CM will have discretion to choose and change the default investment option offered by the Plan.

## **Discretionary Model Portfolio Management**

RBC CM may provide risk-based discretionary model portfolio management and RBC CM may implement certain investment choices from your investment menu within the model portfolios. RBC CM will have discretion to rebalance the models periodically in order to adhere to the target asset allocation for each portfolio. While RBC CM is granted discretion over the investment lineup including implementation, RBC may require assistance from the Plan if third-parties will not implement investment menu changes within a reasonable timeframe.

### **c. Limitations on our Services**

The following limitations apply to the services offered by RBC CM under the Program, whether non-discretionary or discretionary:

#### **Selection of Investment Managers**

You are responsible for providing a copy of any additional written investment guidelines or restrictions to each investment manager you select and for communicating any material changes in the information provided to the investment managers. Investment managers are selected by you unless RBC is providing Discretionary Investment Menu Management services. Other than in connection with our consulting responsibilities as described above, we do not assume responsibility for the conduct of investment managers selected by you, including their performance or compliance with law or regulations.

#### **Employer Stock Fund**

RBC CM has no authority over or responsibility for the employer stock fund and will not provide any ongoing monitoring of the prudence or appropriateness of employer stock as an investment under the Plan. If a Plan includes an employer stock fund, the Client acknowledges and understands that the employer stock fund is not diversified, may be extremely volatile, and may result in large losses. There may be circumstances when investment in employer stock is not prudent and when the lack of diversification is not appropriate. However, RBC CM may provide general education or asset allocation information that may include employer stock fund assets.

#### **Affiliated and Proprietary Investments**

With respect to retirement accounts (including accounts that are subject to Title I of ERISA), RBC GAM - US, City National Rochdale, LLC Funds, or other RBC CM affiliated funds present a conflict of interest when held in Program Accounts. RBC CM proprietary or affiliated investment options may be required to be sold or liquidated within a reasonable time frame in order to avoid conflicts of interest. RBC CM mitigates the conflict of interest by excluding the value of those funds when assessing the RBC CM program asset-based fee.

## **Tax and Legal Considerations**

RBC CM does not provide tax or legal advice. You are advised to see your tax or legal advisor for any tax or legal questions.

### **C. How we Tailor our Advisory Services**

RBC CM tailors our investment advisory services in the Program to meet the needs of each client through the selection of a suite of the services based on information provided by the client to RBC CM. The services provided to the client are tailored to the complexity, objectives, goals, and circumstances of the client and any other restrictions or criteria a client may impose. You can work with your Financial Advisor to select the suite of available services that will help accomplish your objectives.

### **D. RBC Institutional Consulting & Wrap Fee Programs**

The Program does not include the participation in or offering of portfolio management services in wrap fee programs.

Outside of the Program, RBC provides portfolio management services, and in some programs our Financial Advisors act as discretionary portfolio managers in the wrap fee programs we sponsor. We receive a wrap fee for those services and share a portion of that fee with Financial Advisors who participate in the wrap programs. Details of the programs are available in our Wrap Fee Disclosure Brochure which is available from your Financial Advisor.

Our activities as portfolio manager and sponsor of wrap fee programs are separate from our Program services.

### **E. Assets Under Management**

As of June 30, 2021, we had \$190,763,027,509 in assets under management, \$135,580,839,828 of which was managed on a discretionary basis and \$55,182,187,681 of which was managed on a non-discretionary basis.

## **ITEM 5: FEES AND COMPENSATION**

### **A. Program Fees**

The fee that you pay for the Program is negotiable and the Financial Advisor servicing your account will receive a portion of that fee. The amount of any negotiated fee will depend upon the nature and complexity of your situation and needs, the services to be performed, and other relevant factors. You may pay higher or lower fees depending on considerations such as the amount of your assets the FA is providing consulting services on, the amount of time you have been a client of ours, the total amount of business you conduct through us, and other relevant criteria.

Your total cost of each of the services provided through the Program, if purchased separately, could be more or less than the costs of the Program. Cost factors may include the costs to:

- obtain the desired investment advisory services;



- retain the desired investment manager(s), where applicable;
- obtain expertise in selecting and monitoring investment managers and other service providers, where applicable;
- obtain consulting services similar to those provided in the Program; and
- obtain reports comparable to those provided through the Program.

When making cost comparisons, you should be aware that the combination of services available through the Program may not be available separately or may require multiple accounts, documentation and fees.

You may request a brochure that contains more detailed information about the other advisory programs RBC Wealth Management offers by contacting your FA.

## **B. Billing Practices**

Fees will be billed to you directly, deducted from a separate RBC CM account of yours, as directed by you, or in cases of a retirement plan, fees can be calculated and paid by the Plan provider from the assets of, or generated by, the Plan.

Fee Schedule: Except in the case of a one-time flat fee, fees are generally payable in advance on a quarterly basis. In limited circumstances, fees may be payable in arrears on a quarterly basis. For asset-based fees you will provide us in a timely manner (or will cause any applicable investment manager, record keeper, administrator or custodian to provide in a timely manner) all information which we may require and request for our calculation of fees. Asset-based fees are assessed on all account assets, including securities, cash, and money market balances. One time flat fees will be billed in their entirety upon completion and delivery of the contracted services.

Program fees include compensation for the services selected as set forth in the Program Agreement.

For services provided under the Program Agreement, you may elect to pay us either 1) a negotiated fee based on percentage of assets, not to exceed one percent (1%) of assets per annum; 2) a negotiated one time flat fee, not to exceed \$500,000 per annum; or 3) an annual flat fee not to exceed \$500,000 per annum.

## **C. Fees/Other Charges Not Covered by Your Program Fee**

The Program fees described above cover only the services provided by us under the Program Agreement for the Program. Any fee payable by you to each selected investment manager or other service provider will be charged by each investment manager or service provider directly to you, and those fees will be in addition to fees and other charges (as applicable) payable to us. Examples of additional fees paid directly to service providers or investment managers include but are not limited to custody fees imposed by other financial institutions, recordkeeping fees, trust fees, plan administration fees, redemption fees

imposed by mutual funds and transaction based charges you may incur by implementing advice received by RBC CM.

## **D. Termination of Program Agreement**

You may terminate your Program Agreement with us at any time by written notice to us. The Program Agreement will terminate automatically upon our receipt of your written notice of termination. We may terminate the Program Agreement with any client upon written notice to you. Termination of the Program Agreement does not terminate any investment advisory agreement directly between you and any investment manager (if applicable). If you select One Time Flat Fee payment method for services pursuant to the Program Agreement, the Program Agreement will terminate upon the completion and delivery of contracted services. You will need to execute a new Agreement to re-engage us for further services.

If the Program Agreement is terminated prior to the last day of the calendar quarter, a pro rata portion of any fees paid by you based upon the days remaining in the quarter will be refunded as required by law.

You should note that termination will end the investment advisory fiduciary relationship between us and you as it pertains to the terms of the Program. The investment advisory agreement will no longer apply to this account.

## **E. Compensation to Financial Advisors**

If you select investment consulting service(s) described in this brochure, we allocate to your FA part of the fees payable to us in connection with the service(s) selected by you. The FA may receive different compensation depending on which service(s) you select. If you select service(s) described in this brochure, the FA may charge a fee less than the maximum fee stated above. The amount of the fee you pay is a factor we use in calculating the compensation we pay your FA. Therefore, FAs have a financial incentive not to reduce fees.

RBC CM offers recruiting packages to financial advisors joining from other firms. Under these packages, financial advisors receive a lump sum payment from us and simultaneously issue us a Promissory Note in the same amount. So long as the financial advisor remains employed, RBC CM forgives a certain principal and interest amount on the Promissory Note each month until the entire amount is forgiven. This forgiven amount is recorded as income to the financial advisor. If the financial advisor's employment with RBC CM terminates prior to the full forgiveness of the promissory note, the financial advisor must repay the outstanding remaining balance of the promissory note. Although there are no set production goals for the note to be forgiven, a financial advisor must maintain a certain production to remain employed, which could influence the type and amount of product and/or service recommended by your financial advisor. Financial advisors are also eligible under the recruiting packages for additional awards or deferred contributions based on the financial advisor satisfying certain performance criteria following the commencement of employment. These recruiting packages,

awards, and deferred contributions are a conflict of interest because it gives your financial advisor an incentive to enter employment with RBC CM regardless of the comparative benefits clients they service receive at other financial firms. The financial incentives associated with these recruiting packages could influence the type and amount of product and/or service recommended by your financial advisor. RBC CM manages this conflict of interest by reasonably supervising the appropriateness of recommendations made by its financial advisors in accordance with all applicable regulatory requirements.

Branch Directors and Complex Directors, who may also be Financial Advisors, perform supervisory responsibilities over other RBC WM Financial Advisors for the branch or region in which they are located. We compensate these individuals for their supervisory activities through a base salary, but also pay a bonus to these individuals that is based on meeting certain internal benchmarks, which include revenue generated by the Financial Advisors in their branch or region. This is a conflict of interest as supervisors have an incentive to encourage the recommendations of products, services and investments that generate greater revenue for RBC WM in order to meet the revenue portion of the internal benchmark. We mitigate this conflict by not compensating our supervisors directly based on the recommendation of any specific products, services or investments but instead on attainment of specific internal benchmarks, which include revenue goals.

#### **Option to Purchase through Others**

Clients have the option to purchase investment products that RBC CM may recommend through other brokers or agents that are not affiliated with RBC CM.

## **ITEM 6: PERFORMANCE BASED FEES AND SIDE BY SIDE MANAGEMENT**

We do not charge any performance-based fees for any advisory programs.

## **ITEM 7: TYPES OF CLIENTS**

The Program is generally intended for individuals and entities with institutional consulting needs, such as trusts, estates, nonprofit organizations, employee benefit plans, government entities, and business entities. Clients are not required to maintain accounts at RBC CM to receive institutional consulting services.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS**

### **A. Methods of Analysis and Investment Strategies**

RBC CM and/or your Financial Advisor may conduct analysis using a quantitative and/or qualitative approach and present

that analysis via performance monitoring reports and evaluations. Four primary areas of analysis include firm and product, investment professionals, investment approach, and investment performance. Our investment searches are limited to the investment options that are offered at the recordkeeper platform. In connection with performing certain services described in of the Program Agreement, we and our FAs may obtain and utilize information and data from a wide variety of public and private sources including, without limitation:

- Financial publications that monitor market indices, industry research materials and other materials prepared by parties other than us;
- Information and data concerning investment management firms obtained from both the investment management firms and/or from third-party vendors.

All investments carry the risk of loss that you should be prepared to bear. In order to understand the risks associated with investment options, it is important that you review the fund prospectuses and documents, investment monitoring reports we provide to you, and other available investment information in order to ensure the investments selected match your investment goals and/or written investment policy statement.

### **B. Risks with Methods of Analysis and Investment Strategies**

There is no guarantee of performance for any investment strategy implemented. Past performance with respect to other accounts does not predict your account's future performance. Investing in securities involves risk of loss that you should be prepared to bear. Raising the awareness of this risk and discussing the factors that could lead to a loss is an important consideration for you in evaluating a potential investment opportunity. You are advised and should understand that:

- an investment's past performance is no guarantee of future results;
- market conditions, interest rates, and other investment-related risks may cause losses in the account;
- the risk parameters or comparative index selections provided for accounts are guidelines only — the selected risk parameters may be exceeded and index comparisons may outperform an account;
- all trading in your account is at your risk; and
- the value of the assets in your account is subject to a variety of factors, such as the liquidity and volatility of the securities markets.

### **C. Risks Relating to Differing Classes of Securities**

Different classes of securities have different rights as creditor if the issuer files for bankruptcy or reorganization. For example, bondholders' rights generally are more



favorable than shareholders' rights in a bankruptcy or reorganization.

### **Mutual Funds and Exchange Traded Funds**

Mutual funds and exchange traded funds ("ETFs") are sold by prospectus. Please read the prospectus and offering documents carefully before deciding to invest in a particular security. Shareholders of these investments pay fees to the service providers of the funds, for example, management and administrative fees. The actual returns of your investment will be reduced by those fees and expenses. The return and principal value of mutual funds and ETFs will fluctuate so that shares may be worth more or less than their original cost when redeemed. There are risks involved with investing, including possible loss of principal. There is no guarantee that the investments will appreciate during the time that you hold them and some or all may depreciate in price. The risks for each investment will vary depending on the investment objective and underlying investments of each mutual fund and ETF. The prospectus lists the applicable risks. Please review those risks carefully before investing.

Purchasing ETF shares provides you an interest in an underlying basket of securities, designed to obtain investment results that correspond generally to price and yield performance of a particular index of securities, such as the S&P 500. There is no assurance that the ETF investments will match the index it aims to replicate. Investors in ETFs are subject to different risks than investors in mutual funds, as some of these instruments do not issue and redeem shares on a continuous basis. As a result, these securities may not be as liquid as open-end mutual funds. The price of these securities trading on an exchange can move independently of, and at a discount to, the net asset value (NAV) of securities comprising the fund's portfolio.

We recommend that you read the prospectus and offering documents carefully and consider investment objectives, risks, charges and expense before investing and maintain them in your files for future reference. If you have any questions, please contact your Financial Advisor.

### **Collective Investment Trusts or Funds**

A collective trust fund is not open to individual investors. The strategies may be speculative and involve significant risk. Unlike a mutual fund, the only way that an investor can gain access to a collective trust fund is through a retirement plan such as a 401(k) plan. Additionally, regulation of mutual funds and collective trust funds varies. For instance, the mutual fund industry is governed by the Securities and Exchange Commission (SEC). Mutual funds lay out an investment strategy in legal documents that are filed with financial regulators in a region so investors are aware of the risks and rewards that are likely with a fund.

Managers of collective funds are not regulated by the SEC. Instead, these investment advisers adhere to less stringent guidelines and are overseen by the U.S. Office of the Comptroller of the Currency or by a state banking

authority. As a result of less stringent governance, managers of collective funds have to disclose fund performance and the components of a portfolio only once a year, although most collective fund managers communicate performance to investors on a more frequent basis.

### **Stable Value Funds**

The objective of most stable value funds is to provide safety of principal and an investment return that is generally higher than a money market return, while providing participants the ability to withdraw their assets for ordinary transactions at book rather than market value. The ability to withdraw stable value assets at book value has limitations based on the insurance contracts that wrap the underlying assets. In addition, most stable value funds require a hold period before assets can be withdrawn from the fund by the plan sponsor at book value and may refuse to honor book value withdrawals after communications from a plan sponsor or plan fiduciaries that it determines caused participants' withdrawals. The Plan is often restricted from offering investment alternatives or plans that are viewed as competitive with the stable value offering such as money market mutual funds or short term bond funds. Stable value funds are subject to counterparty risk of the insurers that provide the fund's book value liquidity.

### **Group Annuities**

In considering whether to purchase a particular group annuity for the Plan, Clients should consider that a group annuity is a contract between the plan sponsor or the Plan trustee and the issuing insurance company that cover the participants in the Plan. A group variable annuity consists of separate accounts that typically invest in underlying investment portfolios the value of which fluctuates with the market value of the securities in the portfolio. Although a group annuity is issued by an insurance company, the annuity's investment returns are not "insured" or guaranteed and risk of loss of principal does exist; however, the product may offer participants an option to purchase an annuity with a guaranteed component instead of a cash payout. Any such guarantee for an individual annuity is subject to the claims-paying ability of the insurance company. A group annuity contract generally is not a registered security and separate account is generally not a registered separate account. Therefore, the contract and separate account are not subject to registration or regulation by the SEC under the Securities Act of 1933, the Securities Exchange Act of 1934 or the Investment Company Act of 1940. A group annuity held in a qualified retirement plan does not provide any additional tax deferred treatment of earnings for the plan or participants beyond the treatment provided by the plan itself. A group annuity contract typically includes fees and expenses, including administrative fees for certain services of the insurance company, such as recordkeeping and administrative fees. These fees and expenses are in addition to the fees and expenses of the underlying investment

options, which a participant will indirectly bear by investing in those investment options through the group annuity.

## ITEM 9: DISCIPLINARY INFORMATION

In the past, we have entered into various orders, consent and settlements with our regulators and other third parties and have been the subject of adverse legal and disciplinary events. Below are summaries of certain events that may be material to your decision in selecting or maintaining our services for your investment advisory needs.

It should be noted that the disciplinary reporting requirements for broker-dealers and investment advisors differ. Since we are registered as both a broker-dealer and investment adviser, we file information as required by both sets of regulatory requirements. In addition to the descriptions below, you can find additional information about us and management personnel on the Securities and Exchange Commission's website located at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) as well as the Financial Industry Regulatory Authority's ("FINRA") website located at [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

Please note that in each of the instances described below, we entered into various orders, consent and settlements without admitting or denying any of the allegations.

It is alleged by the NYSE that RBC CM violated NYSE rule 3110(a) and (b) (supervision) by failing to establish and maintain a supervisory system and written supervisory procedures (WSPs) reasonably designed to detect and prevent errors in market on close (MOC) orders. On July 6, 2021, RBC CM entered into a letter of acceptance, waiver and consent with NYSE under which RBC CM consented to the sanctions and was censured and fined \$10,000.

It is alleged that RBC Capital Markets, LLC violated SEC Rule 15c3-5(b) and (c)(1)(ii) and Rules 3.2 and 5.1 of the CBOE BZX Exchange, Inc., CBOE EDGA Exchange, Inc., CBOE BYX Exchange, Inc., and CBOE EDGX Exchange, Inc. due to the fact that the Firm's financial risk management controls and supervisory procedures were not reasonably designed to (i) prevent the entry of erroneous orders, (ii) reject orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or (iii) reject duplicative orders. On March 30, 2021, without admitting or denying the findings, RBC CM was censured and fined \$45,000 by CBOE BZX Exchange, Inc., \$45,000 by CBOE EDGA Exchange, Inc., \$70,000 by CBOE BYX Exchange, Inc. and \$45,000 by CBOE EDGX Exchange, Inc.

The Massachusetts Securities Division alleged that RBC CM failed to adequately supervise its representatives with respect to concentration and suitability of master limited partnership energy and telecom positions in certain client accounts. On February 2, 2021 without admitting to any supervisory deficiencies RBC CM agreed to the described sanctions and fines totaling \$320,267.41.

Without admitting or denying the findings, on December 15, 2020 RBC CM consented to the sanctions and to the entry of

findings that it failed to establish and maintain a supervisory system reasonably designed to supervise representatives' recommendations to customers to purchase particular share classes of 529 college savings plans. The findings stated that RBC CM did not provide adequate guidance to representatives regarding the importance of considering share class differences when recommending 529 plans and had no procedures requiring supervisors to review 529 plan share class recommendations for suitability. RBC CM updated its procedures to include such a requirement, but the updated procedures failed to adequately instruct supervisors to consider either the age of the beneficiary or the number of years until expected withdrawals, both critical factors in determining the suitability of the recommended share class. Also, RBC CM did not consistently provide supervisors with the information necessary to review the suitability of 529 plan share class recommendations. Later, RBC CM issued a company-wide compliance alert that provided guidance to representatives regarding 529 plan share class recommendations. RBC CM then updated its supervisory systems and procedures with respect to 529 share class recommendations. Among other things, RBC CM instructed supervisors to consider the age of the beneficiary when assessing the suitability of a representative's 529 share class recommendation. RBC CM has agreed to pay restitution and interest relating to the sale of class C shares to certain 529 plan customers in the estimated amount of \$839,803.

The SEC alleged that from at least July 2012 through August 2017, RBC CM disadvantaged certain retirement plan and charitable organization brokerage customers who maintained accounts at RBC CM ("Eligible Customers") by failing to ascertain that they were eligible for a less expensive share class, and recommending and selling them more expensive share classes in certain open-end mutual funds when less expensive share classes were available. RBC CM did so without disclosing that it would receive greater compensation from the Eligible Customers' purchases of the more expensive share classes. Eligible Customers did not have sufficient information to understand that RBC CM had a conflict of interest resulting from compensation it received for selling the more expensive share classes. Specifically, RBC CM recommended and sold these Eligible Customers class A shares with an up-front sales charge, or class B or class C shares with a back-end contingent deferred sales charge (a deferred sales charge the purchaser pays if the purchaser sells the shares during a specified time period following the purchase) and higher ongoing fees and expenses, when these Eligible Customers were eligible to purchase load-waived class A and/or no-load class R shares. RBC CM omitted material information concerning its compensation when it recommended the more expensive share classes. RBC CM also did not disclose that the purchase of the more expensive share classes would negatively impact the overall return on the Eligible Customers' investments, in light of the different fee structures for the different fund share classes. In making

those recommendations of more expensive share classes while omitting material facts, RBC CM violated sections 17(a)(2) and 17(a)(3) of the Securities Act. These provisions prohibit, respectively, in the offer or sale of securities, obtaining money or property by means of an omission to state a material fact necessary to make statements made not misleading, and engaging in a course of business which operates as a fraud or deceit on the purchaser. As a result of the conduct described above, RBC CM willfully violated sections 17(a)(2) and 17(a)(3) of the Securities Act. On April 24, 2020 RBC CM was censured and paid disgorgement of \$2,607,676, prejudgment interest of \$631,331, plus a civil monetary penalty of \$650,000.

The Commodity Futures Trading Commission alleged that RBC CM engaged in at least 385 noncompetitive, fictitious wash exchange for physical transactions. It was further alleged that RBC CM failed to meet its supervisory obligations, resulting in additional violations including failures to prepare and file timely quarterly risk exposure reports, failures to disclose material noncompliance issues and failures to maintain and produce timely required records. On September 30, 2019, RBC CM was censured and fined \$5,000,000.

Without admitting or denying the findings, RBC CM consented to the sanctions and the entry of findings that RBC CM entered 670 principal orders with incorrect origin codes, indicating that the orders were for customers instead of RBC CM. The findings state that RBC CM ignored red flags and failed to remedy the pattern of entering and executing orders with incorrect origin codes. In addition, for the calendar year 2018, RBC CM conducted 11 of 12 monthly origin code reviews late because RBC CM failed to enforce its procedures requiring timely origin code reviews. Between August 28, 2019, and October 2, 2019, RBC CM settled for a total of \$100,000 across eight exchanges (NASDAQ PHLX LLC \$7,138; NASDAQ Stock Markets/The NASDAQ Options Market \$5,687; CBOE BZX Exchange, Inc. \$28,271; NASDAQ ISE, LLC Fine \$6,721; NYSE American LLC \$4,098; NYSE ARCA, Inc. \$5,509; CBOE Exchange, Inc.: \$36,592; and CBOE C2 Exchange, Inc., \$5,984).

FINRA alleged that from March 2008 to June 2016, RBC CM failed to make the statutorily required delivery of prospectuses to customers who purchased approximately 165,000 exchange traded funds and notes and hundreds of thousands of mutual funds. RBC CM failed to design, implement and enforce a reasonable supervisory system, procedures and set of controls to comply with prospectus delivery rules for ETFs, ETNs and mutual funds and as a result, failed to discover the delivery failures until FINRA's investigation into the matter. On October 17, 2019, RBC CM was censured and fined in the amount of \$2,900,000.

The firm self-reported to the SEC the violations described below pursuant to the Division of Enforcement's Share Class Selection Disclosure Initiative ("SCSD Initiative"). The SEC alleged that RBC CM, during the period of January 1, 2014, through March 27, 2017, failed to make adequate disclosures,

in its Form ADV or otherwise, regarding its mutual fund share class selection practices, and the 12b-1 fees it received, in connection with advisory account transactions. Specifically, at times during the relevant period, RBC CM purchased, recommended or held in advisory accounts mutual fund share classes that charged 12b-1 fees instead of lower-cost share classes in the same fund. The SEC alleged that RBC CM failed to adequately disclose the receipt of the 12b-1 fees and the associated conflict of interest, thereby allegedly willfully violating sections 206(2) and 207 of the Investment Advisers Act. On March 11, 2019, without admitting or denying the findings, the firm shall cease from committing or causing any violation and any future violations of sections 206(2) and 207 of the Advisers Act. Respondent is censured, shall pay disgorgement of \$10,494,813.38 and prejudgment interest of \$1,220,581.34, and shall comply with the undertakings enumerated in the offer settlement.

It was alleged that on two settlement dates RBC CM entered sell-side orders prior to the cut-off time for participation in the special opening quotation and subsequently changed its orders through submission of buy-side orders after the cut-off time which is a violation of Chicago Board Options Exchange, Inc. (CBOE) Rule 6.2B. It was further alleged that RBC CM violated CBOE Rule 4.2 for failing to supervise its associated persons to assure compliance with exchange Rule 6.2B for failing to establish and maintain adequate supervisory procedures for compliance with exchange Rule 6.2B. On August 30, 2018, without admitting or denying the findings, RBC CM consented to the described sanctions and to the entry of findings; therefore it was fined \$75,000.

It was alleged that RBC CM violated CBOE Futures Exchange, LLC (CFE) Rules 401A, 412B(A) and 609. On numerous dates from May 2016 through May 2017, due to a third party service provider programming error and a failure to follow its own written procedures, RBC CM reported inaccurate open interest in various VX weekly contracts, resulting in overstatements of overall exchange open interest. In addition, on numerous dates between December 2016 and August 2017, due to a third party provider inputting incorrect reportable levels and a failure to follow its own written procedures, RBC CM failed to report large trader positions in various VX weekly contracts. On June 13, 2018, without admitting or denying the findings, RBC CM consented to the described sanctions and to the entry of the findings which resulted in a fine of \$50,000.

The Clearing House Risk Committee of the Chicago Mercantile Exchange (CME) alleged that RBC CM violated CME Rule 971.A.1. On June 29, 2018, without admitting or denying the findings, RBC CM consented to the described sanctions and to the entry of findings, and was fined \$50,000.

Without admitting or denying the findings, RBC CM consented to the sanctions and to the entry of findings that it inappropriately used Options Clearing Corporation (OCC) adjustments to create a position without trading on an exchange and subsequently inappropriately used OCC



adjustments to close out a position without trading on an exchange. The findings stated that further, it was determined that RBC CM, through 273 internal entries, triggered OCC adjustments in a total of 107 symbols for a total of 203,478 contracts, which created long and short positions at the OCC without trading on an exchange, and resulted in inflated open interest. The findings also stated that RBC CM failed to follow its written supervisory procedures related to the proper use of OCC adjustments. RBC CM further failed to establish and maintain a supervisory system that was reasonably designed to achieve compliance with the applicable securities laws and regulations, and Box Options Exchange LLC rules, concerning OCC adjustments, as RBC CM did not have any procedures in place to verify that OCC adjustments were not associated with internal entries. On April 13, 2018, RBC CM was censured and fined \$150,000.

Without admitting or denying the findings, RBC CM consented to the sanctions and to the entry of findings that RBC CM failed to take reasonable steps to establish that certain of the intermarket sweep orders (ISOS) it routed met the definitional requirements set forth in Rule 600(B) (30) of Regulation NMS. The findings stated that on the review date, RBC CM failed to take reasonable steps to avoid displaying, and engaged in a pattern of practice of displaying, quotations that locked or crossed a protected quotation, without simultaneously routing an ISO to execute against the full displayed size of any protected quotation that was a locking quotation or crossing quotation. The findings also stated that RBC CM's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the rules of the exchange, concerning ISOS that complied with the SEC's Regulation NMS. Specifically, RBC CM's supervisory system did not include written supervisory procedures that would enable it in certain instances to promptly identify issues with RBC CM's access to timely and accurate market data. RBC CM's regulation NMS compliance ISO exception reports, which were reviewed by RBC CM personnel, did not identify that RBC CM had locked or crossed a protected quotation on the review date. In October 2017, RBC CM settled for a total of \$94,000 across eight exchanges (Bats BYX \$10,500; Bats BZX \$10,500; Bats EDGA \$10,500; Bats EDGX \$21,000; Nasdaq BX \$10,500; Nasdaq \$10,500; NYSE Arca \$10,500; NYSE \$10,500).

It is alleged that RBC WM transmitted to the Order Audit Trail System (OATS) reports in which the special handling code field was not populated to indicate whether the orders were "held" or "not held." The findings alleged that RBC WM's supervisory system did not include written supervisory procedures (WSPs) providing for a review of RBC WM's OATS reports that was representative of the types of business in which RBC WM engaged to ensure its submissions were accurate. The findings also alleged that RBC WM failed to report to the Trade Reporting and Compliance engine (TRACE) transactions in TRACE eligible corporate debt securities, reporting block transactions that were to be allocated to separate managed accounts as a single

block instead of reporting the allocations as individual transactions, as required. The findings also alleged that RBC WM effected customer transactions in a municipal securities in an amount lower than the minimum denomination of the issue, which were not subject to an exception under the applicable municipal securities rulemaking board (MSRB) rule and failed to disclose to its customers that the municipal securities transaction were in an amount below the minimum denomination of the issue. FINRA also alleged that RBC WM failed to report information regarding 18,634 purchase and sale transactions effected in municipal securities to the Real-time Transaction Reporting System (RTRS). For approximately 1,500 of these instances, RBC WM reported block transactions that were to be allocated to separate managed accounts as a single block instead of reporting the allocations as individual transactions, as required. On May 3, 2017, without admitting or denying the findings, RBC WM was censured and fined \$225,000 (for the OATS reporting violations of NASD Rule 6955(A) and FINRA Rule 7450(A), supervision violations of NASD Rule 3010, FINRA Rule 3110, NASD Rule 2110 and FINRA 2010; TRACE reporting violations of FINRA Rule 6730(B); the municipal securities minimum denomination violations of MSRB Rule G-15(F); the municipal securities disclosure violations of MSRB Rule G-17 and MSRB Rule G-47; and the municipal securities trade reporting violations of MSRB Rule G-14). RBC WM will undertake to revise its written supervisory procedures with respect to providing for supervision reasonably designed to achieve compliance with respect to the OATS reporting violations, and offer rescission to the customers impacted by the minimum denomination issue at either the original purchase price or the current fair market value, whichever is higher; additionally the offer of rescission shall remain open with the affected customer for a period of 60 days.

It is alleged that RBC Capital Markets, LLC and RBC Capital Markets Arbitrage, S.A. (both noted together as "RBC" hereafter) failed to retain electronic records in WORM ("write once, read many") format. RBC is also alleged to have failed to implement an audit system regarding the inputting of records in electronic storage media. RBC is alleged to have failed to obtain an attestation from their third party vendor. RBC's supervisory system was allegedly not reasonably designed to enforce specific procedures concerning storage of electronic broker-dealer records in WORM format. On December 21, 2016, without admitting or denying the findings, RBC consented to the described sanctions and to the entry of findings; therefore RBC was censured and fined \$3,500,000, which was paid jointly and severally, and RBC has undertaken to review relevant policies and procedures.

It is alleged by the FINRA that RBC CM trading systems experienced issues during the review periods resulting in significant overstatements and inaccuracies of its advertised trade volume, in violation of NASD Rules 2110 (for conduct prior to December 15, 2008), 3010 (for conduct prior to December 1, 2014), and 3310 (for conduct prior to February

15, 2010), and FINRA Rules 2010 (for conduct on and after December 15, 2008), 3110 (for conduct on and after December 1, 2014), and 5210 (for conduct on and after February 15, 2010). On November 3, 2016, RBC CM was censured and paid a fine in the amount of \$975,000.

It is alleged by the SEC that RBC CM caused Rural/Metro Corporation's violations of the proxy statement provisions of the federal securities laws in connection with the sale of Rural/Metro Corporation ("Rural") in 2011 to a private equity firm. RBC CM, which served as Rural's lead financial adviser for the sale, rendered a fairness opinion to Rural's board of directors that contained materially false and misleading information concerning RBC CM's valuation analysis. RBC CM caused that information to be included in the proxy statement that Rural filed to solicit shareholder approval for the sale. As a result, RBC CM caused Rural to violate section 14(A) of the Exchange Act and Rule 14A-9 thereunder, which prohibits solicitation by means of a proxy statement that contains any materially false or misleading statement. On August 31, 2016, RBC CM was ordered to cease and desist and paid \$500,000 in disgorgement, plus interest of \$77,759. RBC CM also paid a civil penalty of \$2 million.

It is alleged by the Chicago Board Options Exchange ("CBOE") that RBC CM violated Exchange Rule 4.2 and Regulation SHO Rule 204 by failing to properly close out fail-to-deliver positions in seven sampled securities and failed to supervise its associated persons to assure compliance with the aforementioned rules. On April 11, 2016, RBC CM was censured and fined \$75,000.

It is alleged by FINRA that RBC CM violated FINRA rule 2010 and 2081 when mediating a dispute with a claimant by including a "term or condition" that the claimant will not oppose expungement on a settlement agreement.

It is also alleged that RBC CM violated NASD rule 3010(A) and FINRA rules 3110(A), 2010 and 2081 by failing to establish, maintain and enforce a supervisory system, including written procedures, which were reasonably designed to ensure compliance. On June 10, 2016, RBC CM was censured and fined \$125,000 and will undertake the adoption and implementation of supervisory systems and written procedures reasonably designed to achieve compliance with the requirements of FINRA rule 2081.

It is alleged by FINRA that RBC CM failed to identify and apply sales charge discounts to eligible customer transactions in Unit Investment Trusts (UITs). This resulted in approximately 4,399 eligible transactions paying an excess sales charge amount of approximately \$502,088.88. In addition, it is alleged that RBC CM failed to effectively inform and train registered representatives and supervisors to ensure the proper procedures were followed and applicable sales charge discounts were applied. On April 4, 2016; RBC CM was censured and fined \$225,000 and ordered to pay \$502,088.88 plus interest in restitution to customers.

It is alleged by FINRA that RBC CM failed to amend, or timely amend, the forms U4 for registered representatives to

report unsatisfied tax liens and civil judgments. In addition, it is alleged that RBC CM failed to establish and maintain a supervisory system and written supervisory procedure reasonably designed to ensure sufficient inquiry and disclosure of reportable unsatisfied liens and judgments in instances in which a garnishment notice was sent. On March 1, 2016; RBC CM was censured and fined \$300,000 and required to provide FINRA a written certification that the systems, policies and procedures are now reasonably designed to ensure compliance with the applicable laws.

It is alleged by the NYSE that RBC CM violated NYSE rule 92(A) by entering a proprietary order on thirteen occasions to buy or sell an NYSE-listed security while knowingly was in possession of a customer order to buy or sell such security that could have been executed at the same price. This resulted in the proprietary order to be traded along with, or ahead of, the customer order or caused the customer's order to be traded outside of their consent parameters. It is also alleged that on two occasions, the Firm violated NYSE Rule 2010 by failing to document customer consent to the allocation split as required by NYSE Rule 92(B). In addition, it is alleged that the Firm violated NYSE Rule 342 by failing to reasonably supervise and implement adequate controls reasonably designed to achieve compliance with certain NYSE rules and policies. On August 28, 2015; RBC CM was censured and fined \$80,000.

RBC CM self-reported to FINRA an Order Audit Trail System ("OATS") reporting issue which resulted in RBC CM failing to transmit 1,183,844,292 reportable order events ("ROES") to the Order Audit Trail System ("OATS") over the course of approximately 28 months in violation of FINRA rules 7450, 2010 and NASD rule 3010. FINRA alleged that RBC CM lacked Written Supervisory Procedures ("WSP") reasonably designed to provide for adequate OATS reporting. On July 27, 2015 RBC CM was censured and fined a total amount of \$450,000 and required to revise its WSP.

It is alleged by the Securities and Exchange Commission ("SEC") that RBC CM violated section 17(A)(2) of the Securities Act by conducting inadequate due diligence in certain municipal securities offering and, as a result, failed to form a reasonable basis on the validity of certain material representations in official statements issued in connection with those offerings. On June 18, 2015 RBC CM was fined \$500,000 and ordered to retain an independent consultant to conduct a review of the policies and procedures relating to municipal securities underwriting due diligence.

It is alleged by FINRA that between 2008 and 2012, RBC CM violated NASD rules 3010(A), 2310, 2110 and FINRA rule 2010 by failing to have in place supervisory systems and procedures reasonably designed to ensure compliance with applicable laws and regulations and its internal guidelines concerning suitability of reverse convertibles, a type of complex structured product. On April 23, 2015; RBC CM was censured and fined \$1,000,000 and ordered to pay \$433,898.10 plus interest in restitution to certain clients.



FINRA alleged that RBC CM violated FINRA and MSRB rules by allegedly (1) trading in its market-making account and then failing to execute customer limit orders at a price that would have satisfied the limit orders (2) purchasing and selling municipal securities at an aggregate price for its own account from or to a customer that was not fair and reasonable; and (3) failing to report eligible transactions to the Trade Reporting and Compliance Engine ("TRACE") as well as the correct contra-party identifier for TRACE eligible transactions and products. On November 13, 2013, without admitting or denying the findings, the Firm entered into an Acceptance Waiver and Consent agreeing to a censure and fine for \$50,000, \$15,000 of which was for the alleged MSRB rule violations.

It is alleged by the Colorado Division of Securities that RBC CM client associates, who were not appropriately licensed in accordance with applicable state laws, accepted orders for transactions in securities and the firm failed to establish and enforce an adequate system to monitor the licensing status of such employees. On July 8, 2013, as part of a multi-state settlement, RBC CM entered into an agreement individually with each state for repayment of back licensing fees and penalties in the aggregate amount of \$2.8 million. In addition, the firm will reimburse the state of Colorado \$100,000 and the North American Securities Administrators Association \$10,000 for the costs associated with this matter. Lastly, RBC CM will establish and maintain policies, procedures and systems that are reasonably designed to supervise the trade process in accordance with applicable state licensing laws.

The New Jersey Bureau of Securities ("NJBS") alleged that RBC CM failed to follow its own procedures with respect to monthly account reviews ("MARS"), failed to reasonably supervise its agents, and also failed to maintain copies of the MARS, which may be considered to be a failure to keep accurate books and records. On March 11, 2013, without admitting or denying the findings of fact and conclusions of law by the NJBS, RBC CM entered into a consent order and was assessed a fine in the amount of \$150,000, of which \$100,000 was suspended due to RBC's extensive cooperation, and paid \$300,000 in disgorgement to the NJBS.

FINRA alleged that RBC CM violated various FINRA, NASD, MSRB and SEC rules by failing to use reasonable diligence in some transactions relating to corporate bonds to ascertain the best inter-dealer market and transact in such market ensuring prices to customers were as favorable as possible under prevailing market conditions. In addition, it is alleged that RBC CM transacted in municipal securities for its own account to and from some clients at an aggregate price that was not considered to be fair and reasonable at the time of the transaction. It is also alleged that RBC CM failed to transmit some reportable order events to the order audit trail system and transmitted some execution reports that failed to reflect partial executions.

In addition, it is alleged that RBC CM failed to send written notifications to some clients disclosing its correct capacity in the transactions, that compensations details are available upon request and erroneously disclosing that a commission was charged for a principal transaction. RBC CM also allegedly accepted an equity short sale security or effected an equity short sale order in its own account without borrowing, entering into a bona fide arrangement to borrow or having a reasonable ground to believe that the security could be borrowed so that it could be delivered properly and failed to document compliance with Regulation SHO. RBC CM also allegedly failed to submit accurate or timely information regarding the result of an Auction Rate Security and numerous interest rate resets to the MSRB's short-term obligatory rate transparency system. Lastly, it is alleged that RBC CM failed to correctly report some required transactions for corporate debt, contra-party identifiers, market identifiers, execution date and new issue offerings for which RBC CM was managing underwriter/secritizer to the Trade Reporting and Compliance Engine. On April 24, 2013; RBC CM was censured and fined a total of \$97,500.

FINRA alleged that RBC CM violated various FINRA, NASD and MSRB rules by failing to report orders in an accurate or timely manner or to correct rejected orders transmitted to the Order Audit Trail System (OATS), FINRA/NASDAQ Trade Reporting Facility (FNTRF) and the Trade Reporting and Compliance Engine (TRACE). It is also alleged that the RBC CM purchased and sold municipal securities for its own account at an aggregate price, taking into consideration all relevant factors that was not considered to be fair and reasonable. Lastly, it is alleged that the RBC CM did not have a supervisory system reasonably designed to achieve compliance with the minimum requirements pertaining to TRACE-eligible securities. On December 12, 2012, RBC CM was censured and fined \$62,500 and required to revise its written supervisory procedures relating to the registration of TRACE-eligible securities within 90 days.

FINRA alleged that RBC CM violated SEC rules 15C3-1, 15C3-3, 17A-3, 17A-5, FINRA Rule 2010, NASD Rules 2110, 3010 (A) and (B), NYSE Rules 416(A), 440.20 by failing to properly and accurately reconcile its accounts, due to complications stemming from a merger and conversion. This resulted in customer reserve, net capital, recordkeeping and supervisory violations. On July 16, 2012, RBC CM was censured and paid a fine of \$250,000.

It is alleged by FINRA that RBC CM violated FINRA/NASD rules 1122, 2010, 2110, 3010 by failing to establish and maintain a supervisory system and establish, maintain and enforce written supervisory procedures reasonably designed to comply with applicable rules and regulations pertaining to short-term transactions in Closed-End Funds. On May 10, 2012 RBC CM was censured, fined \$200,000 and ordered to pay partial restitution of \$70,000 to a customer.

The Massachusetts Securities Division alleged that RBC CM failed to supervise and made unsuitable recommendations to brokerage and advisory clients regarding the purchase of leveraged, inverse and inverse-leveraged Exchange Traded Funds. ON May 2, 2012 RBC CM entered into a consent order with the Massachusetts Securities Division under which RBC Capital Markets has paid a fine of \$250,000 and offered restitution of approximately \$2,000,000 to certain clients.

FINRA alleged that RBC CM violated various FINRA, MSRB and SEC rules because it failed to report the following to the trade reporting and compliance engine (TRACE) for TRACE eligible securities: block transactions within 15 minutes of execution time, transactions it was required to report, the correct contra-party's identifier, the time of trade execution in the correct format, the correct price and symbol indicating whether the trade was a buy or sell and the correct trade execution time. RBC CM also reported transactions to TRACE it was not required to report and double reported TRACE transactions. RBC CM also failed to report information regarding purchase and sale transactions and block purchase and sale transactions effected in municipal securities to the real-time transaction reporting system (RTRS) within 15 minutes of the time of trade to a RTRS portal. RBC CM also improperly reported information to RTRS, failed to report information and reported a transaction it should not have. RBC CM failed to report the correct yield for municipal securities to the RTRS and provided written notification disclosing to customers the incorrect yield. RBC CM failed to transmit to the OTC reporting facility (OTCRF) last sale reports of transactions within 90 seconds after execution and to designate the reports as late. RBC CM failed to report to the OTCRF the correct execution time for transactions in reportable securities. It is also alleged that RBC CM failed to show the correct execution time on brokerage order memoranda, execute orders fully and promptly, use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price for customers were as favorable as possible under the prevailing market conditions. On November 8, 2011; RBC CM was censured and fined \$125,000 and ordered to pay \$241.26, plus interest, in restitution to investors.

## **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **A. Broker Dealer Registration**

RBC CM is a full-service brokerage and financial services firm and is registered as a broker-dealer and an investment adviser with the SEC. Further, RBC CM is a member of the NYSE, FINRA, the Securities Investor Protection Corporation ("SIPC"), and several other exchanges and self-regulatory organizations.

### **B. Commodity Futures Registration**

RBC CM is also registered with the Commodity Futures Trading Commission as a futures commission merchant.

### **C. Arrangements with Related Persons**

Program assets will not be held at RBC CM and you are not required to purchase products that RBC CM distributes, or otherwise transact business with RBC CM or any of our affiliates in order to put into action any aspect of the Program. However, below is a list of affiliated entities of RBC CM that you may end up doing business with if you so choose.

RBC GAM-US is an affiliate of RBC CM. RBC GAM-US is a federally registered investment adviser that provides portfolio management services to institutional separate accounts, registered investment companies, pooled vehicles, and portfolio management services for wrap fee accounts and model portfolios offered by other providers. RBC GAM-US also serves as a sub-adviser to RBC CM sponsored wrap program and is a model provider. On occasion, RBC CM solicits clients for RBC GAM - US. RBC CM also sweeps some account credit balances into RBC GAM-US advised money market funds.

RBC GAM-US may also serve as investment adviser and/or sub-advisor to mutual funds that may be recommended by RBC CM. This is a conflict of interest as we are incented to recommend the RBC Funds or other affiliate funds over a non-RBC Fund. We address this conflict of interest by proper disclosure and by not charging certain fees to retirement accounts, including accounts subject to Title I of ERISA and individual retirement accounts.

City National Bank is an affiliate of RBC CM. In certain instances, we, through our Financial Advisors, will refer clients to City National Bank for certain banking products and services, or City National Bank will refer clients to us for brokerage and other investment services. In such cases, the referring party may, as permitted by applicable law, receive fees and compensation in connection with these products and services.

City National Rochdale, LLC is a subsidiary of City National Bank, an affiliate of RBC CM. City National Rochdale is a federally registered investment adviser that provides money management services to high net worth individuals, families and foundations. City National Rochdale may also serve as investment adviser and/or sub-advisor to mutual funds that may be recommended by RBC CM. This is a conflict of interest as we are incented to recommend City National Rochdale Funds or other affiliated funds over a non-RBC Fund. We address this conflict of interest by proper disclosure and by not charging certain fees to retirement accounts, including accounts subject to Title I of ERISA and individual retirement accounts.

RBC CM, RBC GAM-US and City National Bank are wholly-owned subsidiaries of RBC USA Holdco Corporation, which is a wholly-owned indirect subsidiary of Royal Bank of Canada.

RBC Global Asset Management (UK) Limited ("GAM UK"), BlueBay Asset Management LLP ("BlueBay LLP") and BlueBay Asset Management USA LLC ("BlueBay LLC") are wholly owned indirect subsidiaries of RBC and affiliates of

RBC CM, GAM UK, BlueBay LLP and BlueBay LLC serve as investment sub-advisers to certain U.S. registered mutual funds for which RBC GAM-US or other third-parties serve as the investment adviser. Such funds may be recommended by RBC CM. This is a conflict of interest as we have an incentive to recommend funds that are sub-advised by our affiliates over other products. To the extent permitted by applicable law, this conflict is addressed by proper disclosure and by not charging certain fees to retirement accounts, including accounts subject to Title I of ERISA and individual retirement accounts. BlueBay LLP also manufactures and manages certain alternative investment funds and strategies available to Advisory Program clients. This is a conflict of interest as we are incented to recommend these RBC Funds or Alternative Investment funds over a non-RBC Fund or Alternative Investment fund.

Royal Bank of Canada indirectly owns a majority interest in LMCG Investments, LLC ("LMCG"). LMCG is a privately owned, federally registered investment adviser that provides investment management services to institutional and high net worth individuals, consulting services for private equity and venture capital and portfolio management services for wrap fee accounts and model portfolios offered by other providers. LMCG also serves as an investment adviser or sub-adviser to mutual funds which may be recommended by RBC CM. This is a conflict of interest as we are incented to recommend LMCG mutual funds over a non-RBC fund. To the extent permitted by applicable law, this conflict is addressed by proper disclosure and by not charging certain fees to retirement accounts, including accounts subject to Title I of ERISA and individual retirement accounts.

Royal Bank of Canada owns a minority interest in Matthews International Capital Management, LLC ("MICM"). MICM is a privately owned, federally registered investment adviser that provides investment services to institutional clients, pension and profit sharing plans, insurance companies, endowments and foundations and other business entities. MICM also serves as an investment adviser or sub-adviser to mutual funds which may be recommended by RBC CM. This is a conflict of interest as we are incented to recommend MICM mutual funds over a non-RBC fund. To the extent permitted by applicable law, this conflict is addressed by proper disclosure and by not charging certain fees to retirement accounts, including accounts subject to Title I of ERISA and individual retirement accounts.

Royal Bank of Canada owns a minority interest in O'Shaughnessy Asset Management (O'Shaughnessy), but Royal Bank of Canada does not control O'Shaughnessy for regulatory purposes. O'Shaughnessy also serves as an investment adviser or sub-adviser to mutual funds which may be recommended by RBC CM. This is a conflict of interest as we have an incentive to recommend O'Shaughnessy mutual funds over other products. To the extent permitted by applicable law, this conflict is addressed by proper disclosure and by not charging certain fees to retirement accounts, including accounts subject to Title I of ERISA and individual retirement accounts.

Client may select RBC Trust Company (Delaware) Limited, a Delaware chartered trust company and a division of RBC or City National Bank, a nationally chartered bank and trust company and an affiliate of RBC CM, as a professional trust and estate settlement service provider. RBC WM and your Financial Advisor are prohibited from serving as trustees.

Client may select TrustCorp America (TCA), a Washington DC chartered trust company, as a professional trust and estate settlement service provider. RBC CM has a controlling interest in TCA.

## ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

### A. Code of Ethics

Our Investment Adviser Code of Ethics, summarized below, is available separately at the request of a client or prospective client:

We are committed to ensuring that in our capacity as an investment adviser as well as a broker-dealer we:

- Act in the best interests of our clients and not allow personal interests of those of the organization to take precedence over the interests of our clients;
- Act with due skill, care and diligence in conducting our business and all transactions and trading activities;
- Preserve client confidentiality at all times;
- Respect the intellectual property rights of others;
- Prevent and/or fully disclose any perceived or real conflicts of interest;
- Protect and promote the integrity of the market; and
- Preserve honesty, integrity and trust in all communications with clients, employees and shareholders.

### *Objectives of the RBC CM Investment Adviser Code of Ethics*

- To encourage and foster an organization and work environment that prompts the internal reporting through a defined escalation path regarding violations of the Investment Adviser Code of Ethics as related to securities transactions, personal trading activities of employees and supervisory personnel, employee behavior, and the RBC Code of Conduct.
- To promote compliance with applicable securities laws, rules, and regulations through leveraging an ethically-based approach;
- To promote honest and ethical conduct by all employee, Financial Advisors, and executives including the ethical management of actual or apparent conflicts of interest between external, personal and professional relationships;
- To promote full, fair, accurate, and understandable disclosure in reports, documents, and client

communications that we create, submit, and disseminate; and

- To establish accountability on the part of employees, Financial Advisors, and executives regarding adherence to the Investment Adviser Code of Ethics.

We and our affiliates may give advice and take action in performing our duties to other clients that differs from advice given, or the timing and nature of action taken, with respect to you. In the course of our respective investment banking activities or otherwise, we and our affiliates may from time to time acquire material nonpublic or other information about corporations or other entities or their securities. We and our affiliates are not obligated and may not be permitted to divulge any such information to or for the benefit of clients, or otherwise act on the basis of any such information in providing services to clients. We, our related persons and affiliates may purchase for our own accounts securities that are recommended to clients.

We have no control over where investment managers execute its trades; however, in situations where investment managers execute trades through us, a financial incentive may exist for us and we may recommend investment managers or model portfolios with lower portfolio turnover rates. This arrangement may also create a financial incentive for investment managers or overlay managers to refrain from searching as actively among other securities brokers and dealers for best execution.

#### **Participation or Interest in Client Transactions and Personal Trading**

Many of the conflicts related to participation or interest in client transactions and personal trading may not apply in the context of RBC institutional consulting because assets are not custodied at RBC and we do not require you to establish accounts, purchase products or otherwise transact business with us. Nevertheless, we attempt to address potential conflicts of interest through this and other disclosure documents.

In addition to sponsoring the Advisory Programs, RBC CM sponsors other investment advisory programs and engages in a broad range of brokerage and other financial services. These include public and private investment banking and underwriting, retail and institutional brokerage and trading, institutional research and numerous other brokerage, advisory and financial services. Clients of RBC CM may include investment managers and overlay managers under RBC WM Programs. Our broker-dealer activities are our principal business and account for the vast majority of our time, energies and resources.

We have adopted and enforce internal policies and procedures with respect to conflicts of interest between us and our clients. Pursuant to these policies and procedures, we, when engaging in the activities enumerated above, treat your orders fairly and do not give our own orders preference over your orders. Where required by applicable law or

exchange rules, we obtain the consent of affected clients in advance of any transactions in which we will be engaging in the activities referenced above. When we engage in the activities referenced above, all statements and/or confirmations of such transactions contain the disclosures required by applicable law and exchange rules. Securities activities are monitored daily to detect and prevent employees from trading ahead of client accounts.

## **ITEM 12: BROKERAGE PRACTICES**

Our RBC Institutional Consulting services do not include the review or recommendation of broker-dealers for client transactions.

## **ITEM 13: REVIEW OF ACCOUNTS**

RBC CM has instituted policies and procedures for the supervision and oversight of the Program. The supervisory structure is designed to ensure RBC CM complies with the requirements of the Investment Advisers Act of 1940 and ERISA, where applicable, along with other applicable rules and regulations. RBC CM Financial Advisors conduct periodic (but at least annual) reviews with their Clients in the Program with the frequency agreed upon between RBC CM and the Client.

## **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

We have referral agreements with independent third parties (each, a “Solicitor”) whereby a Solicitor will refer prospective clients to us for investment advisory services. Under these arrangements we will pay the Solicitor for these referrals by either (i) sharing with the Solicitor a portion of the Program Fee (generally about 25%, although it can be higher than 25%, depending on facts and circumstances) that we receive from a referred client that opens one of our sponsored advisory Program Accounts, or (ii) paying the Solicitor a one-time flat fee of between \$110 to \$650 for each referral, with such fee payable regardless of whether the referred party opens an account with us.

We receive referral fees from third-party investment advisers, third-party professional trust and estate settlement service providers, third-party lending institutions, or an affiliate of ours for successful client referrals made by our Financial Advisors. The professional trust and estate settlement service provider or lending institution pays a referral fee pursuant to a referral agreement between us and the professional trust and estate settlement service provider or lending institution. The investment adviser or affiliate shares a portion of the advisory fee it receives from the client with us pursuant to a referral agreement between us and the investment adviser. In the case where a Financial Advisor refers a client to an affiliate, there is a monetary incentive for us to recommend an affiliate over other qualified and suitable non-affiliated advisors. The client



acknowledges the referral fee arrangement by signing the investment adviser's consent and disclosure document.

An RBC CM employee or an affiliate may also refer a client to an RBC CM Financial Advisor. As an incentive, the referring employee may receive a percentage or a portion of the fees paid by the client for selected services. In addition, RBC WM FAs are eligible to receive a one-time payment to refer existing client accounts to the RBC Advantage team. The referring employee's role in the ongoing client relationship, if any, may vary depending on each client's particular situation. The amount of the referral fee paid to us by a third-party investment adviser or by us to an employee providing a referral varies depending on the facts and circumstances.

### **ITEM 15: CUSTODY**

We do not provide custody to Program assets. You will receive account statements from the broker-dealer, bank or other qualified custodian that is holding the Program assets. We urge you to carefully review your statements upon receipt.

### **ITEM 16: INVESTMENT DISCRETION**

If you have selected the ERISA 3(38) model, we accept the discretionary authority to select the available investment options for your Plan as disclosed in the Program Agreement. Clients may limit this discretion in accordance with the provisions of their Plan or any other restrictions they may negotiate with RBC CM. Before assuming this discretionary authority, we require an executed Program agreement delegating us this power.

### **ITEM 17: VOTING CLIENT SECURITIES**

Our institutional consulting services generally do not include proxy voting services. You will receive your proxy materials directly from the custodian or transfer agent. You may contact your FA directly for advice on any particular solicitation.

### **ITEM 18: FINANCIAL INFORMATION**

We are not required to include a balance sheet in this disclosure document because we are a qualified custodian as defined in SEC Rule 206(4)-2.

We do not have any financial conditions that are reasonably likely to impair our ability to meet our contractual commitments to clients.

RBC CM and its predecessors has not been the subject of a bankruptcy petition during the past 10 years.