Understanding RBC Growth Insurance, RBC Growth Insurance Plus and the participating account

Insurance

Contents

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RBC Growth Insurance and RBC Growth Insurance Plus are participating life insurance products that combine the benefits of insurance protection with guaranteed cash value growth. This guide is intended to provide an overview of product information. This guide is not intended to be relied upon as tax, legal, accounting or other advice. Please consult with your own professional advisors for advice specific to your situation. Every effort has been made to ensure accuracy of the information in this guide. Despite our best efforts, some errors and omissions may occur. In the event of a discrepancy, the terms of the applicable RBC Growth Insurance and RBC Growth Insurance Plus policy will take precedence over any information contained in this guide.

Strength. Stability. Experience.

Section 1: Understanding the benefits of RBC Growth Insurance and RBC Growth Insurance Plus

RBC Growth Insurance™ and RBC Growth Insurance Plus™ are participating life insurance products. Sometimes referred to as "par insurance," these products provide a powerful combination: life insurance coverage plus the opportunity to earn tax-advantaged investment growth. Participating life insurance is ideal for protecting families, maintaining businesses and facilitating the intergenerational transfer of wealth.

What is participating life insurance?

With a participating life insurance policy, premiums paid by policy owners are pooled in a professionally invested participating account, which distributes gains from the investments to the policy owners in the form of dividends. In addition, as premiums are paid, the cash value of the policy grows – policy owners can access this value to meet financial needs.

What are the benefits of participating life insurance?

Policy owners choose participating life insurance for a range of benefits:

- The option to participate in the growth of their invested premiums, and receive dividends from investment growth in a form they select from various options
- The security of fixed premiums over a fixed period of time, which ensures stable and predictable costs
- A growing cash value, which provides a flexible source of money that can be converted to cash flow, used as collateral or used to offset or eliminate the cost of premiums
- A guaranteed base death benefit, which provides financial security

Plus, growth inside the policy accumulates free of annual taxation following the rules in section 148 (3) of the federal Income Tax Act.

How do the participating account and participating dividends work?

The opportunity for policy owners to participate in the growth of funds that are professionally managed by the insurer is a differentiating feature of participating life insurance. Compared to other permanent insurance products, many clients prefer participating whole life insurance because they can benefit from professional investment experience, especially since the insurer may also have access to funds that are not publicly available.

With RBC Growth Insurance and RBC Growth Insurance Plus, the participating account is funded with policy premiums and collectively invested by the RBC Insurance® investment team. The participating account may experience gains if the mortality rate and expenses are lower than expected and investment returns are better than expected.

These gains – known as "retained earnings" – form the participating account surplus. This surplus can be distributed to policy owners in the form of dividends, and policy owners can choose from several options to receive the dividends. The payment of dividends is not guaranteed.

The amount of retained earnings in the participating account is influenced by:

- Investment returns
- Expenses
- Mortality or death claims made by policy owners
- Policyholder behaviour such as policy surrenders and loans

The allocation of dividends to individual policy owners is determined by a formula known as the "dividend scale." The dividend scale takes into account a number of different factors, including:

- The dividend scale interest rate (DSIR), which is the interest rate used to calculate the investment component of the dividend
- Gains, or losses from mortality claims, expenses and other components

After the dividend scale has been calculated, dividends are paid out to policy owners based on their chosen dividend option. The dividend scale is not guaranteed; it can change each year.

Each year, the RBC Life Insurance Company Board of Directors will approve any distribution of the participating account surplus to both the policy owner and the shareholder. The maximum amount distributed to the shareholder is governed by applicable legislation (the federal Insurance Companies Act). Any remaining surplus is held in the participating account to enhance the account's stability.

Understanding the dividend scale interest rate

While investment returns are a major component of policy owner dividends, the dividend scale interest rate (DSIR) may be higher or lower than the investment returns in the participating account. That's because the DSIR takes into account factors beyond investment yield, including the participating account surplus level and future expected returns. In addition, smoothing techniques are applied to the DSIR.

The DSIR is applied to the rate of return of the invested assets in the participating account, not to individual policies. The DSIR also forms one component of the calculation used to determine the dividends that are allocated to policy owners.

Each year, the DSIR is reviewed to determine if it will remain the same, increase or decrease. Any change to the rate is approved by the RBC Life Insurance Company Board of Directors, and then policy owners are informed of the change in their anniversary statement.

Fluctuations in the DSIR can have a significant impact on the non-guaranteed values and the total death benefit of the policy. If the DSIR ever changes, the projections included in the original illustration for the total cash value and total death benefit will not occur. You may request an updated inforce illustration.

Section 2: Why consider RBC Growth Insurance and RBC Growth Insurance Plus?

RBC's history of providing value to customers, including through its insurance operating entity RBC Life Insurance Company, means Canadians can count on us when considering participating life insurance. Our strength, stability and experience combined provide the benefits policy owners are looking for in participating life insurance policies.

Our strength

At RBC, we've kept our promises to Canadians for more than 150 years. In good times and bad – and through it all – our commitment to our customers has never wavered.

RBC Insurance is among the largest Canadian bank-owned insurance organizations. We serve more than five million clients globally, offering a wide range of life, health, home, auto, travel, creditor and wealth accumulation solutions to individual and group clients.

Our stability

Our combination of a long-term investment strategy and a prudent management philosophy contributes to strong, stable returns for participating policy owners.

To provide a more stable investment-return experience in participating policies, we apply smoothing techniques to minimize the impact of short-term market fluctuations. As a result, these investment returns tend to move more slowly than actual interest rates and equity markets – meaning they decline less rapidly when interest rates or equity markets fall, and increase more slowly as interest rates rise or equity markets enter periods of growth.

We use the dividend scale to distribute gains to policy owners fairly while mitigating fluctuations in the market. When we are determining the dividend scale, we look at current and anticipated future performance, and we aim to minimize short-term volatility.

What is smoothing?

Smoothing is the practice of recognizing investment gains and losses, not as they occur, but over a longer time period. By smoothing out market and interest-rate ups and downs, this approach minimizes the impact of volatility that short-term fluctuations can have on investment returns.

Using smoothing techniques means we are able to deliver more stable returns for all asset classes than we would if we recognized investment gains and losses as they occurred. Note that smoothing is applied to any market and interest-rate movement.

Our experience

In 1998 the Canadian business of the Mutual of Omaha was acquired by RBC Life Insurance Company. This included a block of participating life insurance policies. These policies are backed by assets in a separate participating account from the RBC Growth Insurance participating account. Since this acquisition, RBC Life Insurance Company has been managing this closed block of participating policies and annually paying dividends to our policyholders.

Our experienced investment management team's philosophy is to manage the participating account in a way that maximizes potential returns while maintaining a prudent risk profile.

RBC Insurance's experienced portfolio management team manages the investments backing the participating account so policyholders don't have to monitor and manage the investments on their own. Our investment professionals hold more than 100 years of collective asset management experience and follow the same investment philosophy as RBC Capital Markets® and RBC Global Asset Management®.

Our core team of investment professionals from various industry sectors ensures both full coverage of different investment asset classes and best-in-class structuring, execution and management capabilities.

- The average level of experience on the team exceeds 25 years, and the collective experience is more than a century.
- The team manages over $15 billion in assets, with over $2.5 billion in alternative private assets including commercial mortgages, private fixed income and commercial real estate.

This core team is further supported by RBC's innovative and leading global network, which brings in-depth knowledge and expertise in the areas of corporate and commercial banking, capital markets, global infrastructure and real estate, asset management and risk management.

Section 3: RBC Growth Insurance and RBC Growth Insurance Plus investment strategy and asset allocation

The investment strategy for the participating account is guided by the goals of delivering long-term growth, ensuring stability of participating account dividends, providing adequate liquidity, managing interest-rate risk prudently and achieving tax efficiency. Our investment guidelines and constraints support asset quality, target mixes, liquidity requirements and asset duration.

RBC Life Insurance Company (RBC Life) has transferred seed capital from the shareholder surplus to the participating account to support new participating policies and solidify our commitment to the assets backing this product. In the future when the participating account is established and the seed capital is no longer required, this amount may be transferred to the shareholder account with a reasonable rate of return over time, subject to approval from OSFI. Policyholders will be informed when a transfer to the shareholder account has taken place.

Target asset allocation of the participating account

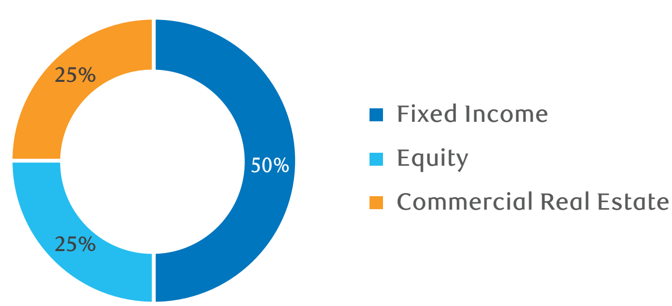
In alignment with the objective for the participating account to maintain long-term dividend stability, the asset allocation is carefully managed to provide optimal diversification among asset classes, and the portfolio managers employ a disciplined investment approach to maximize long-term returns.

In addition to the traditional fixed income investments in public bonds, investments in alternative private assets such as commercial mortgages and private fixed income are integral to the investment strategy as these assets have the potential to provide higher risk-adjusted returns and improve portfolio diversification.

The proposed target asset allocation for the RBC Life account, corresponding to the investment policy for the account, is as follows:

	Asset Class	Target	Minimum	Maximum
Fixed Income	Short Term	50%	30%	70%
	Government Bonds			
	Corporate Bonds			
	Commercial Mortgages			
	Private Placements			
Non-Fixed Income	Common Shares	25%	30%	70%
	Commercial Real Estate	25%		
		100%		

Target allocation (% of total)



These investment mix guidelines represent long-term targets. To protect the interests of policyholders and prudently accommodate considerations around available investment opportunities and prevailing economic and market conditions, the actual asset allocation may, from time to time, vary from the target allocation within the prescribed limits.

Government and corporate bonds

The public bonds portfolio consists primarily of a mix of provincial bonds and investment-grade corporate issues diversified across geography, quality, sector and term to maturity. The goal is to maintain the overall portfolio quality within investment-grade-category ratings (BBB or higher). The target allocation for the public bond portfolio by asset quality (rating) and asset sector is shown on the right.

Public bonds target allocation

By quality:

Rating (Quality)	Target (% of total)
AAA	0%
AA	25%
A	50%
BBB	25%
Total	**100%**

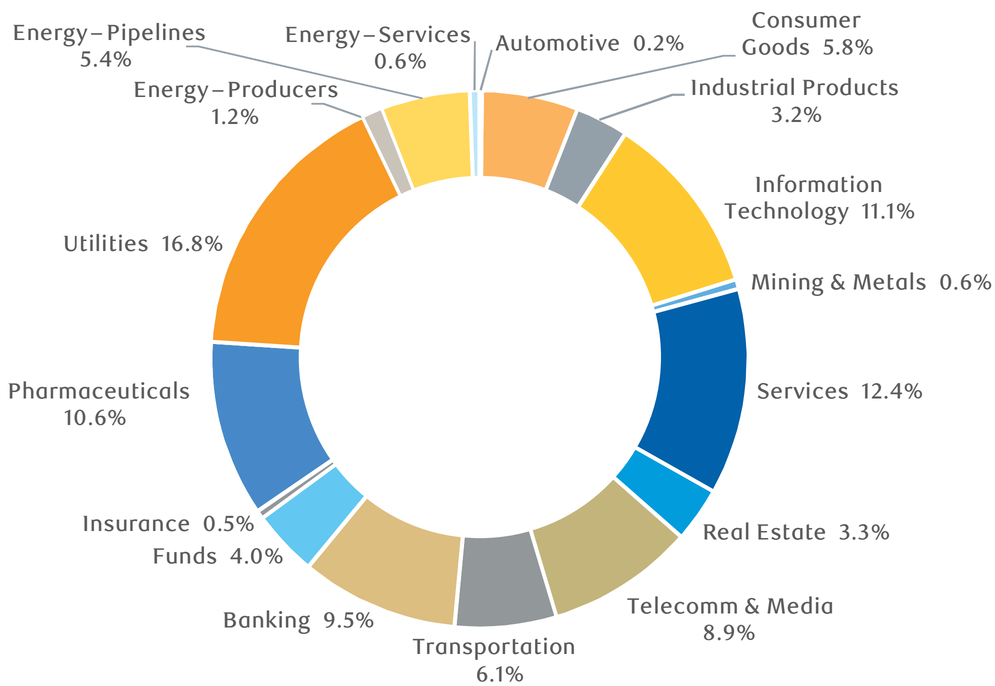
By sector allocation:

Sector	Target (% of total)
Federal	0%
Provincial	15%
Municipal	0%
Corporate	85%
Total	**100%**

Over the long term, 30%-50% of the account investments will be held in corporate bonds, reflecting our overall portfolio mix targets for asset quality and sector diversification. Our existing corporate bond portfolio composition, for assets in our general fund, is shown for reference.

Existing corporate bond portfolio composition (for assets in our general fund)

Corporate bonds by sector



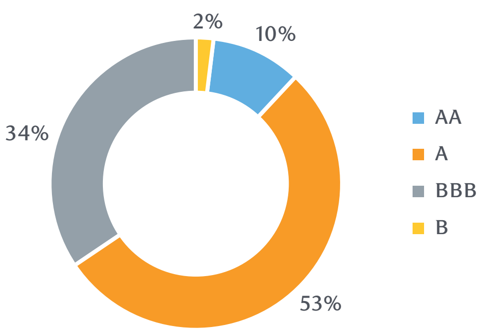
Private fixed income

The private fixed income investments are bond-like investments issued under private agreements with public-sector borrowers and corporate issuers, and typically include corporate private placements, infrastructure debt financing and private fixed-rate term loans. A prudent level of diversification by quality and sector is maintained for the private fixed income portfolio.

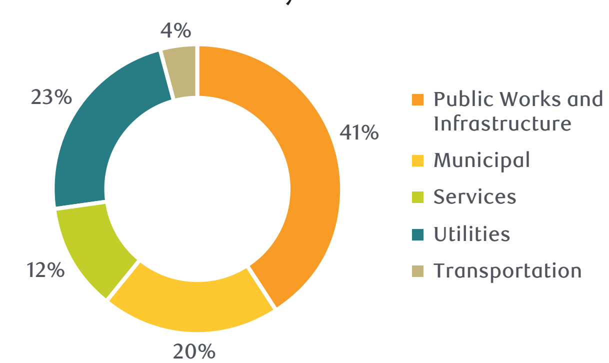
Over the long term, 10% of the account investments will be in held in private fixed income investments, reflecting our overall portfolio mix targets for asset quality and sector diversification. Our existing private fixed income portfolio composition, for assets in our general fund, is shown below for reference.

Existing private fixed income portfolio composition (for assets in our general fund)

Private fixed income by quality



Private fixed income by sector



Commercial mortgages

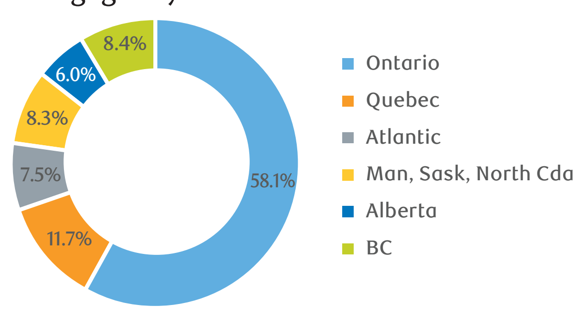
RBC Life Insurance Company is an established commercial mortgage provider in the Canadian commercial real-estate market, with a specialized mortgage team. This team is supported by the strong mortgage platform within RBC, which has been one of the largest mortgage providers in Canada for well over 150 years. We are also an approved lender with the Canada Mortgage and Housing Corporation.

The team primarily focuses on acquiring long-term, conventional first mortgage loans that meet our stringent underwriting criteria and diversification objectives. Our current portfolio consists of carefully selected high-quality assets that are located across Canada and highly diversified by property type – retail, office, industrial, multi-family properties, etc.

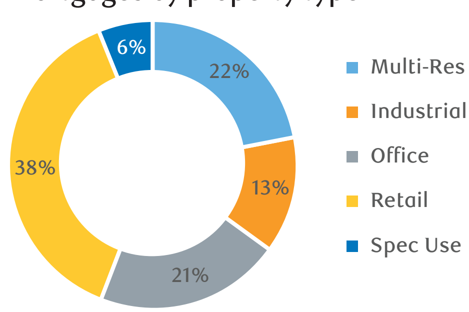
Over the long term, 10% of the account investments will be in commercial mortgages, reflecting our overall portfolio mix targets in terms of diversification by location and property type. Our existing mortgage portfolio composition, for assets in the general fund, is shown for reference.

Existing mortgage portfolio composition (for assets in the general fund)

Mortgages by location



Mortgages by property type

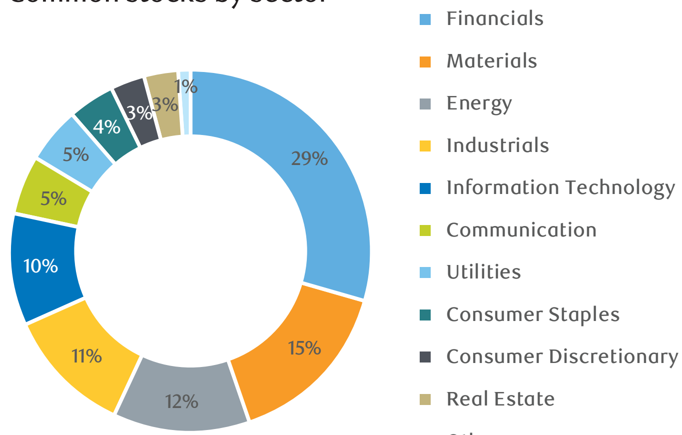


Equities (common stocks)

The allocation to equities will be invested using the performance of the S&P/TSX Composite Index as a benchmark. We are also looking at adding diversification to our equity position by allocating some portion of the investment to indices that track the Nasdaq and global equities. For illustration purposes, the sector exposure of the S&P/TSX Composite Index (as of December 31, 2019) is shown on the right.

Sector exposure of the S&P/TSX Composite Index (as of December 31, 2019)

Common stocks by sector



Name	Weight (%)	Sector
Shopify Inc.	6.42	Information Technology
Royal Bank of Canada	6.05	Financials
Toronto-Dominion Bank	4.98	Financials
Canadian National Railway	3.94	Industrials
Enbridge Inc.	3.72	Energy
Bank of Nova Scotia	3.1	Financials
Barrick Gold Corp.	2.87	Materials
Brookfield Asset Management Inc.	2.87	Financials
TC Energy Corp.	2.45	Energy
BCE Inc.	2.3	Communication
Bank of Montreal	2.13	Financials
Canadian Pacific Railway Ltd.	2.13	Industrials
Canadian Imperial Bank of Commerce	1.86	Financials
Alimentation Couche-Tard Inc.	1.76	Consumer Staples

Commercial real estate

The commercial real estate portfolio is diversified across a number of well-managed, industry-leading private commercial real estate pooled funds with a portfolio of diversified holdings of retail, office, multi-residential and industrial properties across all major markets in Canada. The return from commercial real estate is stable as it is derived from the pooled-fund returns.

Return comparison

The following table compares a hypothetical estimated historical investment return for the RBC Life participating account (based on a 50/50 asset allocation to government and corporate bonds and equities, and on actual returns from other conventional asset classes). This table is for illustrative purposes only.

Year	Hypothetical RBC Life PAR Return[1,2,*]	Government of Canada 10-Year Bonds	S&P/TSX Composite Total Return	Consumer Price Index
2002	0.7%	5.7%	-12.4%	3.8%
2003	12.6%	5.3%	26.7%	2.1%
2004	10.8%	5.1%	14.5%	2.1%
2005	13.9%	4.4%	24.1%	2.1%
2006	10.9%	4.3%	17.3%	1.7%
2007	7.0%	4.3%	9.8%	2.4%
2008	-6.9%	4.0%	-33.0%	1.2%
2009	15.6%	3.9%	35.1%	1.3%
2010	10.7%	3.7%	17.6%	2.4%
2011	5.9%	3.2%	-8.7%	2.3%
2012	8.1%	2.3%	7.2%	0.8%
2013	6.3%	2.7%	13.0%	1.2%
2014	8.1%	2.6%	10.6%	1.5%
2015	1.4%	2.0%	-8.1%	1.6%
2016	8.5%	1.8%	21.1%	1.5%
2017	5.6%	2.2%	9.1%	1.9%
2018	0.2%	2.3%	-8.9%	2.0%
2019	11.5%	1.6%	22.9%	2.2%
2020	4.7%	0.7%	5.6%	0.7%

[1] This hypothetical return is not the DSIR, but is estimated based on a 50/50 allocation to bonds (blend of government and corporate bonds) and equities. The DSIR, in contrast, would be impacted by smoothing.

[2] This hypothetical historic return calculation for the RBC Life account does not include the returns for private fixed income and commercial mortgages. These asset classes are part of the account portfolio making up the reserve, which is used to pay death claims.

* Notes/Source:
Provincial – Bloomberg Barclays Canada Aggregate Provincial Total Return Index (unhedged C$)
Corporate – Bloomberg Barclays Canada Aggregate Corporate Total Return Index (unhedged C$)
Equity – S&P TSX Composite Total Return Index
CRE – MSCI/REALPAC Canada Annual Property Index (IPD Index)

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

RBC® Insurance

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