RBC Global Asset Management

# RBC Multi-Strategy Alpha Fund
# Quarterly Report – Q4 2020

*For qualified investor use only*

**Performance as of December 31, 2020 (%)**

| | 3 Mo | 1 Yr | 2 Yr | 3 Yr | 4 Yr | 5 Yr | SI* |
|---|---|---|---|---|---|---|---|
| **RBC Multi-Strategy Alpha Fund** | **3.37** | **-1.52** | **0.08** | **0.53** | **2.33** | **3.89** | **3.39** |
| *FTSE Canada 91-Day T-Bill Index* | *0.03* | *0.86* | *1.26* | *1.30* | *1.11* | *0.99* | *0.93* |

Series O returns. Returns are gross of fees and are denominated in Canadian dollars.
*Inception date: August 31, 2013.

## Fund Profile

The RBC Multi-Strategy Alpha Fund's (MSAF) objective is to generate positive absolute returns with moderate risk of annual drawdown and moderate correlation to traditional asset classes. The fund aims to achieve this objective through exposure to a strategic mix of RBC GAM alternative, absolute return, and other investment strategies.

## Performance Review

| Strategy | Contribution to MSAF (%) | Performance Drivers | Investment Themes |
|---|---|---|---|
| **Absolute Return**<br>Core income combined with opportunistic and relative value trading in North American markets | 1.85 | Broad-based gains across conservative core income portfolio, income equities, and high-conviction event-driven holdings. | Core of the portfolio remains in higher-quality bonds. Anticipate material gains on REIT holdings as recovery unfolds alongside positive catalysts for event-driven positions. |
| **Long/Short Credit & Global Macro**<br>Relative value long/short corporate and sovereign credit, interest rates, and currencies (FX) | 1.33 | Strong performance across long holdings in sovereign (both DM and EM) and corporate credit as well as FX. Contribution from rates was modest. | Remain constructive on credit with bias to areas most supported by central bank policy. Expect more return dispersion at security and sector level as recovery takes hold. |
| **Event Driven Credit**<br>Special credit situations combined with portfolio hedges and opportunistic shorting | 0.39 | Large gains on restructuridng holdings. Several stressed and event-driven holdings also generated positive returns. | Expect the supply of stressed and distressed opportunities to increase given economic weakness. The fund is well positioned with ample liquidity. |
| **Market Neutral Equity**<br>Quantitatively driven Canadian and world market neutral equities | -0.38 | Large negative returns from Momentum and Growth factors. Value factor was positive but not enough to offset weakness elsewhere. | Research focused on new sources of returns. Strengthening risk management and tools to improve performance. |
| **Private Markets**<br>High yield commercial mortgages; real estate equity in core markets and assets | 0.12 | Consistent yield accrual and positive operating performance across both strategies continued to support steady gains. | Mortgage team is taking advantage of improving origination activity. Real estate equity fund is well-diversified and continues to grow its asset base. |

## Strategy Update

The MSAF posted a solid gain this quarter and has recovered a significant portion of its losses from earlier in the year. Most of the underlying funds had positive returns, led by the PH&N Absolute Return Fund and BlueBay fixed income strategies. A dramatic rebound in risk assets provided support for core credit and distressed positions across our portfolios and created attractive trading opportunities for our teams. Market Neutral funds were the only detractors from performance as sharp reversals in Momentum and Growth factors in November were detrimental to our results.

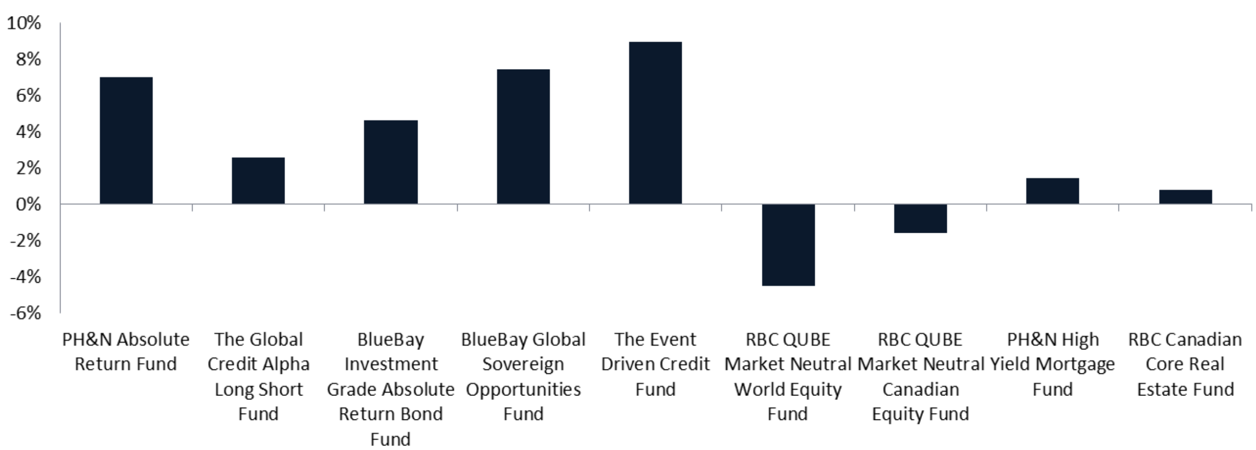
Looking back on 2020, we are disappointed with overall results and are focused on improving consistency and diversification of our strategy mix. To that end, we are evaluating a number of new funds to complement the existing mix, particularly in the area of long/short equity. Having said that, we remain confident that our core strategies are well placed to continue to deliver attractive returns as we approach the other side of COVID-19, and did not make any changes to the current strategy mix in the fourth quarter.

## Target Strategy Mix as of December 31, 2020

| Underlying Fund | Target Weight (%) |
|---|---|
| PH&N Absolute Return Fund | 25 |
| The Global Credit Alpha Long Short Fund | 25 |
| BlueBay Investment Grade Absolute Return Bond Fund | 6 |
| BlueBay Global Sovereign Opportunities Fund | 4 |
| The Event Driven Credit Fund | 6 |
| RBC QUBE Market Neutral World Equity Fund | 6 |
| RBC QUBE Market Neutral Canadian Equity Fund | 11 |
| PH&N High Yield Mortgage Fund | 5 |
| RBC Canadian Core Real Estate Fund | 5 |
| Cash[1] | 0-5 |

1. Cash weight varies based on fund cash flows and rebalancing trades

## Underlying Fund Performance: Quarter Ending December 31, 2020



## MSAF Underlying Strategy Performance Updates

### Absolute Return

| PH&N Absolute Return Fund Performance as of December 31, 2020 (%) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 3 Mo | 1 Yr | 2 Yr | 3 Yr | 4 Yr | 5 Yr | SI* |
| **Strategy Performance** | **6.99** | **-17.09** | **-9.67** | **-4.91** | **-2.03** | **3.49** | **3.65** |

Returns are net-of-fee and reported in Canadian dollars. *Since inception date of August 2013.

- The fund employs a core income strategy combined with relative value and opportunistic investing in high-conviction situations across North American markets.
- We were well positioned for the rebound during the fourth quarter and experienced solid gains on the fund's stable income as well as more opportunistic and event-driven positions.
- Our stable fixed income portfolio is well-diversified and invested in higher-quality (IG or near-IG bias) issuers yielding ~4.5%. We remain constructive on credit markets and believe the rally in spreads has further to go, supported by strong demand for income in current low interest rate environment.
- Turning to income equity, our positions are concentrated in three high-quality yet cheap Canadian REITs. These blue-chip, grocery/essential services-anchored operators still trade at 20-35% discounts to their Net Asset Value (NAV) despite significant positive momentum.
- We conservatively expect at least half of this very wide discount to erode by the end of 2021 as post-vaccine sentiment around strong commercial property improves, while collecting a ~6.5% dividend stream in the interim, providing conservatively a 20-25% total expected return on this basket.
- We hold several event-driven positions, with a core holding in **SNC-Lavalin**. While SNC has been a significant detractor from returns over the past two years, it is now more appropriately sized and offers meaningful upside given its depressed current valuation and positive catalysts in 2021.
- In distressed credit, we hold two very promising positions in the rapidly improving energy complex. Both bonds mature in 2024 (to be re-financed by 2023) trading at ~ 70% of par and with rather viable paths for a par refinancing in the next 18 months while paying us a yield of ~9% in the interim.
- Fund leverage is at ~1.75x (net of hedges) and should decline further following expected maturities/ refinancings. We continue to utilize leverage to capitalize on very low borrowing costs as compared to the ~400-basis-point average credit spread we can capture on our lower-risk fixed income basket.
- We have significantly reduced equity risk over the last three quarters, with current equity exposure of ~30% including REITs (or ~10% of "pure" equity exposure). Our hedge basket is small and tailored to our risks, reducing unwanted drag on returns while still providing some downside protection.
- While our overall return for this COVID-impacted year was disappointing, we feel very confident that our current positioning and our outlook for 2021 will enable the fund to further recover from this challenging year.

## Long/Short Credit & Global Macro

| The Global Credit Alpha Long Short Fund as of December 31, 2020 (%) | 3 Mo | 1 Yr | 2 Yr | 3 Yr | 4 Yr | 5 Yr | SI* |
|---|---|---|---|---|---|---|---|
| **Strategy Performance** | **2.56** | **21.19** | **15.46** | **10.28** | **11.17** | **9.43** | **7.96** |

Returns are net-of-fee and reported in Canadian dollars. *Since inception date of August 2013.

| BlueBay Investment Grade Absolute Return Bond Fund as of December 31, 2020 (%) | 3 Mo | 1 Yr | 2 Yr | 3 Yr | 4 Yr | 5 Yr | SI* |
|---|---|---|---|---|---|---|---|
| **Strategy Performance** | **4.66** | **5.12** | **5.91** | **3.05** | **3.55** | **2.82** | **2.46** |

Returns are net-of-fee and reported in Canadian dollars. *Since inception date of August 2013.

| BlueBay Global Sovereign Opportunities Fund Performance as of December 31 (%) | 3 Mo | 1 Yr | 2 Yr | 3 Yr | 4 Yr | 5 Yr | SI* |
|---|---|---|---|---|---|---|---|
| **Strategy Performance** | **7.45** | **2.54** | **4.86** | **1.37** | **2.74** | **-** | **2.74** |

Returns are net-of-fee and reported in Canadian dollars. *Since inception date of December 2016.

- All funds in this category delivered strong returns. These strategies are managed by the BlueBay Investment Grade and Emerging Markets teams with a similar approach, though with different market focus and risk and return expectations.
- Our corporate credit positions posted solid gains as vaccine news, the resolution of the U.S. election, and policy support resulted in a meaningful tightening in credit spreads. Long positions in subordinated bank debt (e.g., **Deutsche Bank**) and select U.S. non-financials (e.g., **GE**) were notable contributors.
- Our holdings in more COVID-affected sectors (e.g., **Simon Property**) were also profitable. We expect to see more dispersion at the sector and issuer levels as the recovery unfolds, creating additional trading opportunities for our teams in these areas.
- We remain modestly constructive on corporate spreads given policy support and strong investor demand, despite valuations looking somewhat less attractive. Our bias is to parts of the market most supported by the accommodative policy, specifically subordinated financials and hybrid securities.
- Our long sovereign credit positions also benefitted from a more positive risk tone. In developed markets, our holdings in **Italy** and **Greece** performed well. **Turkey** was a stand-out performer in EM with rallies in its currency and debt following its shift to a more sustainable monetary stance.
- We expect policy to remain supportive of European sovereign credit but, with peripheral spreads ending the year at their 2020 tights, valuations keep us from being too positive. EM debt remains attractive, supported by weakening U.S. dollar and favourable asset flows into hard and local markets.
- Our FX positions also contributed as longs in the **Turkish lira** and **Chinese renminbi** gained versus **USD**. Turning to rates, contribution was immaterial as our risk exposure in rates remains modest, with a small short in U.S. rates and a long exposure to emerging markets.
- While we all hope for a less volatile year in 2021, we feel that the uncertainties that lie ahead will lead to opportunities from macro positioning and sector/issuer-level return dispersion that follows as the market starts to differentiate between the winners and the losers as the recovery unfolds.

## Event Driven

| The Event Driven Credit Fund Performance as of December 31, 2020 (%) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 3 Mo | 1 Yr | 2 Yr | 3 Yr | 4 Yr | 5 yr | SI* |
| **Strategy Performance** | **9.75** | **10.79** | **9.53** | **6.71** | **7.73** | **6.96** | **6.93** |

Returns are net-of-fee and reported in Canadian dollars. *Since inception date of March 2014.

- The fund invests in a diversified portfolio of liquid stressed, distressed, and special situation opportunities in the global leveraged loan and high yield credit markets.
- The fund posted a large quarterly gain on crystallizations of restructuring holdings and positive contributions from stressed and event-driven positions.
- The majority of our gains in the restructuring strategy came from our profitable exit from **Vertellus** as it was sold to a private equity firm, bringing the turnaround we had expected to its conclusion.
- We also saw upward repricing in stressed holdings of Italy-based ferry operator **Moby** and customer financing services company **Mulhacen** on news of potential restructuring/refinancing.
- The proceeds from recent sales brought our net cash level to 32%. We see financial fundamentals of many companies significantly weaker as a result of the pandemic and are well positioned to deploy capital into new opportunities that we are anticipating in coming quarters.

## Market Neutral Equity

| RBC QUBE Market Neutral World Equity Fund Performance as of December 31, 2020 (%) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 3 Mo | 1 Yr | 2 Yr | 3 Yr | 4 Yr | 5 Yr | SI* |
| **Strategy Performance** | **-4.52** | **-8.15** | **-10.42** | **-7.83** | **-3.53** | **-2.66** | **-1.86** |

Returns are net-of-fee and reported in Canadian dollars. *Since inception date of August 2015.

| RBC QUBE Market Neutral Canadian Equity Fund Performance as of December 31, 2020 (%) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 3 Mo | 1 Yr | 2 Yr | 3 Yr | 4 Yr | 5 Yr | SI* |
| **Strategy Performance** | **-1.61** | **-12.15** | **-6.96** | **-4.17** | **-2.41** | **-1.66** | **0.01** |

Returns are net-of-fee and reported in Canadian dollars. *Since inception date of August 2012.

- The equity market neutral strategies posted negative returns. Both funds are managed using the same quantitative process that assesses companies based on fundamental characteristics, or alpha factors, that we believe drive superior long-term returns.
- News of a successful COVID-19 vaccine results in November caused extreme factor return moves in the market with Technical (momentum) and other “growth” factors suffering historically large drawdowns.
- Exposure to these factors at the sector level was a key driver of negative returns. While the Value factor performed well, it was not sufficient to offset negative returns from Profitability and Growth.
- Performance of these market neutral strategies has been disappointing in recent years. While they have provided an important source of diversification for the MSAF as intended, their absolute returns have been below expectations.
- The team is working through a number of projects to determine reasons behind diminished factor returns we are seeing while identifying additional opportunities to improve performance.

## Private Assets

| PH&N High Yield Mortgage Fund Performance as of December 31, 2020 (%) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **3 Mo** | **1 Yr** | **2 Yr** | **3 Yr** | **4 Yr** | **5 Yr** | **SI*** |
| **Strategy Performance** | **1.44** | **4.28** | **4.51** | **4.94** | **-** | **-** | **4.94** |

Returns are net-of-fee and reported in Canadian dollars. *Since inception date of November 2017.

| RBC Canadian Core Real Estate Fund Performance as of December 31, 2020 (%) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **3 Mo** | **1 Yr** | **2 Yr** | **3 Yr** | **4 Yr** | **5 Yr** | **SI*** |
| **Strategy Performance** | **0.74** | **-1.60** | **-** | **-** | **-** | **-** | **-0.68** |

Returns are net-of-fee and reported in Canadian dollars. *Since inception date of October 2019.

- Both private market strategies posted gains this quarter. The PH&N High Yield Mortgage Fund (HYMF) invests primarily in “high-quality, high yield” commercial mortgages. The RBC Canadian Core Real Estate Fund (CCREF) invests in a diversified portfolio of high-quality core assets in Canada’s primary markets.
- We continued to enjoy favourable characteristics on our portfolio of mortgages with a yield of 5.3%. We’ve seen an increase in origination activity and are reviewing several attractive opportunities; these are currently in the due diligence stage of our process, with funding anticipated in during the first quarter.
- Despite increased activity, we remain focused on opportunities with attractive risk/reward, prioritizing capital preservation through disciplined deal structuring process and loan terms.
- Turning to real estate equity, stabilized income and positive leasing momentum contributed to more normalized portfolio performance in the second half of 2020 – a trend we expect to continue.
- Stable occupancy through the year was a direct result of a high-quality tenant base comprising approximately 1,000 commercial tenants and 2,800 residential units diversified across 10 markets. This resilience supported consistent cash flow generation, with current distribution yield of ~3.4%.
- Among the four core property sectors, COVID-19 has had the most adverse effect on retail, and fashion-based enclosed malls in particular. The fund has minimal exposure to this segment and no holdings in the health care, hotels, and student housing markets that were most affected by the pandemic.
- The fund successfully completed the Tranche II acquisition in October 2020, bringing its gross asset value to $2.6B, diversified across 48 assets in 10 cities.
- We believe the fund’s diversification and discipline place it in a very strong position heading into 2021, with focus on operating performance and executing our investment program to generate consistent long-term returns.

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