RBC QUBE 120/20 Canadian Equity Fund Q4 2020 Report

For qualified investor use only

Performance comparison as of December 31, 2020 (%)

	3 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	SI*
RBC QUBE 120/20 Canadian Equity Fund	**6.75**	**-1.54**	**8.33**	**2.12**	**4.09**	**6.81**	**4.99**
S&P/TSX Capped Composite Index	*8.97*	*5.60*	*13.91*	*5.74*	*6.57*	*9.33*	*6.29*
Relative Performance	-2.22	-7.14	-5.58	-3.62	-2.48	-2.52	-1.30

Series F performance in Canadian dollars, net of management fees
*Inception date is November 25, 2013.

Fund overview

The objective of the RBC QUBE 120/20 Canadian Equity Fund is to provide investors with actively managed exposure to Canadian equity markets, with consistent added value relative to its benchmark. The fund invests approximately 120% of its net assets long, while selling short approximately 20%.

Our approach is based on the belief that portfolios with a better mix of the characteristics that drive stock returns over time – such as better valuations, profitability, and growth – will deliver superior returns relative to the market. To build this portfolio we score companies based on these desirable characteristics, and then combine them into a portfolio with a balanced combination of these factors. While we are focused primarily on security selection, we also tilt the portfolio towards sectors that score well on the factors we measure.

We are cognizant that other unintended exposures within the portfolio could potentially overwhelm the positive contributions from the factors that we emphasize. We therefore quantify and neutralize the impact of risk factors – such as currency, beta, or market cap size – as much as possible.

Market update

The global equity market rally that followed on the heels of the precipitous declines of March extended through the end of the year. Despite some volatility in the fall, most major equity markets continued experiencing remarkable strength in the fourth quarter, posting solid gains over the period. All major equity markets ultimately erased the losses they'd sustained earlier in the year, with several even posting double-digit gains over the one-year period.

The Canadian equity market returned 8.97% over the fourth quarter, and is now positive for the year after recovering from the precipitous Q1 declines experienced by its two largest sectors, Energy and Financials. Though both sectors posted positive returns in the fourth quarter, the Energy sector, which makes up nearly 12% of the index, still has a meaningfully negative return for the year, at -26.57%. The Financials sector, which makes up nearly a third of the index, posted strong returns in the fourth quarter and is now up slightly for the year. The outlook for bank earnings is improving as investors take note of receding fears over loan quality, consistently solid capital positions, and cost-cutting. Moreover, even modest rises in longer-term interest rates spurred by a robust economic recovery would bolster interest income and returns on lending.

Fund performance

After performing exceptionally well throughout the first three quarters of 2020, Profitability and Technical (momentum) factors were the largest detractors in our security selection model in the fourth quarter, while Value provided positive returns and acted as a modest offset.

Factor performance shifted in November, when the market saw significant volatility as investors reacted to news about positive COVID-19 vaccine trials and the results of the U.S. presidential election.

Most importantly, the Pfizer and BioNTech announcement on November 9th, which indicated the success of their vaccine candidates, triggered a rotation out of leading growth stocks concentrated in the Information Technology sector and into out-of-favour Value stocks within the Financials and Energy sectors. This transition caused our security selection model's Technical factor to experience its worst day on record and our sector selection model to underperform as its composition is more heavily weighted in momentum indicators. Additionally, the investor optimism that carried through November and December helped boost the share prices of companies whose operations were hit hardest during the pandemic, causing returns from our Profitability factor to turn negative.

Finally, market breadth – which is important for the performance of quantitative strategies – improved throughout the fourth quarter, but concentration levels remain elevated.

In terms of attribution, our underweight allocations to the Financials and Real Estate sectors contributed the most to relative performance, while our underweight allocations to the Materials and Information Technology sectors detracted.

At an individual stock level, our overweight positions in **WSP Global** and **Linamar** contributed the most to relative performance, while our underweight positions in **Lightspeed POS** and **Stelco** were the largest detractors.

Recent activity

During the quarter, we increased our allocation to **Brookfield Asset Management** but remain underweight the stock. Fee-based revenues from the company's asset management division and funds from operations were both strong in their third quarter earnings report. The company also announced plans to build up its re-insurance business for a possible 2021 spin-off. Additionally, we removed our short position in **FirstService** and put on a long and overweight position in the stock. The company's third quarter results came in well above guidance and analyst expectations as the essential nature of its property services proved to be resilient throughout the pandemic. In our model, the stock's Growth, Quality, and Analyst scores have improved recently and all now score favourably.

We removed our underweight position in **Telus** and our overweight position in **SSR Mining**, applying short positions in both stocks instead. In terms of Telus, competition within the Communications sector remains intense and a decline in roaming fees due to the reduction of travel throughout the pandemic has negatively impacted the average revenue per user for all wireless carriers. During the third quarter of 2020, the company reported weak wireline margins due to lower activity in the business-to-business segment. In our security selection model, the stock scores poorly across the board, with especially low and deteriorating Quality and Sentiment scores. In terms of SSR Mining, the stock's Growth score is particularly poor and weakened further during the quarter. Additionally, the company's acquisition of Alacer Gold – which was announced in May and completed in September – had a large negative impact on the company's Quality score within our model.

QUBE research update

This quarter, we launched a portfolio engineering project aimed at improving our performance assessment. The goal is to provide deeper insights into the impacts of implementation constraints that we apply to control turnover and for regulatory and compliance/risk-control reasons. This research will provide us with i) a powerful diagnostic tool that will improve our ability to track and monitor each portfolio's alignment to our intended model, and ii) an additional attribution tool even more closely aligned with the investment process that will deliver actionable feedback into our model and implementation.

We continued our analysis of the alternative data landscape to identify datasets that will build upon the deep library of existing data used by the team. The expectation is that alternative data is more likely to deliver new information into our models, ultimately complementing projects aimed at enhancing our alpha capture from existing data sets. In addition, another benefit of our investment in alternative data is the further development and honing of skills and capabilities in data analysis and advanced machine-learning.

Lastly, our environmental, social, and governance (ESG) dashboard mentioned previously is expected to be implemented this quarter. This dashboard is being developed by the team to monitor and measure existing exposures in our funds as we continue progress in evaluating ESG considerations and formalizing our framework for the integration of ESG into the investment process.

Positioning

As of December 31, 2020, the portfolio held positions in 200 stocks (144 long and 56 short).

More details are provided in the tables on the following page.

As of December 31, 2020

GICS sector positioning (%)	Long	Short	Net	Benchmark	Relative
Industrials	13.4	0.3	13.7	12.5	1.2
Consumer Staples	4.8	0.2	5.0	3.8	1.1
Information Technology	10.1	1.1	11.2	10.3	0.9
Communication Services	5.2	0.3	5.5	4.9	0.6
Materials	15.2	-0.9	14.3	13.7	0.5
Financials	26.6	4.1	30.7	30.2	0.5
Energy	10.8	0.7	11.5	11.2	0.3
Consumer Discretionary	3.8	-0.2	3.6	3.9	-0.3
Health Care	0.9	-0.8	0.1	1.2	-1.1
Real Estate	3.4	-1.7	1.7	3.1	-1.5
Utilities	6.0	-3.4	2.6	5.1	-2.6

Individual holdings (%)	GICS sector	Portfolio weight	Over/under weight	Driving factor
Top 5 overweights				
Constellation Software	Information Technology	2.9	1.6	Profitability
CIBC	Financials	3.2	1.2	Sentiment
ATCO	Utilities	1.3	1.2	Growth
Quebecor	Communication Services	1.3	1.0	Profitability
Enghouse Systems	Information Technology	1.0	0.9	Profitability
Top 5 underweights				
Fortis	Utilities	-1.1	-2.1	Profitability
Telus	Communication Services	-0.8	-2.1	Quality
Emera	Utilities	-1.5	-2.1	Profitability
Algonquin Power & Utilities	Utilities	-0.7	-1.2	Growth
Brookfield Asset Management	Financials	2.0	-1.0	Value

Portfolio characteristics are subject to change.

This information is not intended to be an offer or solicitation to buy or sell securities or to participate in or subscribe for any service. No securities are being offered, except pursuant and subject to the respective offering documents and subscription materials, which may be provided to qualified investors only. This document is for general information only and is not, nor does it purport to be, professional advice or a complete description of an investment in any fund managed by RBC Global Asset Management Inc. (RBC GAM). If there is an inconsistency between this document and the respective offering documents, the provisions of the respective offering documents shall prevail. Information obtained from third parties is believed to be reliable, but no representation or warranty, express or implied, is made by RBC GAM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions.

This document may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words “may”, “could”, “should”, “would”, “suspect”, “outlook”, “believe”, “plan”, “anticipate”, “estimate”, “expect”, “intend”, “forecast”, “objective” and similar expressions are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risk and uncertainties, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement. All opinions in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

Investments in alternative funds are speculative and involve significant risk of loss of all or a substantial amount of your investment. Alternative funds may: (i) engage in leverage and other speculative investment practices that may increase the risk of investment loss; (ii) can be highly illiquid; (iii) are not required to provide periodic pricing or valuation information to investors; and (iv) are not subject to the same regulatory requirements as prospectus-offered mutual funds. In assessing the suitability of this investment, investors should carefully consider their personal circumstances including time horizon, liquidity needs, portfolio size, income, investment knowledge and attitude toward price fluctuations. Investors should consult their professional advisors and consultants regarding any tax, accounting, legal or financial considerations before making a decision as to whether the funds mentioned in this material are a suitable investment for them.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the fund’s offering documents before investing. The performance data provided assumes reinvestment of distributions only and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Publication Date: January 28, 2021.