

# RBC QUBE Market Neutral 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*
<b>RBC QUBE Market Neutral Canadian Equity Fund</b>	<b>-1.61</b>	<b>-12.15</b>	<b>-6.96</b>	<b>-4.17</b>	<b>-2.41</b>	<b>-1.66</b>	<b>0.01</b>
<i>FTSE Canada 91-Day T-Bill Index</i>	<i>0.03</i>	<i>0.86</i>	<i>1.26</i>	<i>1.30</i>	<i>1.11</i>	<i>0.99</i>	<i>0.95</i>

Series F performance in Canadian dollars, net of management fees.

\*Inception date is August 31, 2012.

### Fund overview

The objective of the RBC QUBE Market Neutral Canadian Equity Fund is to provide consistent absolute returns that are substantially independent of the performance of broad equity and fixed income markets.

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, holding long positions in companies with a more attractive combination of these characteristics than those securities we sell short, while targeting a broad world equity market exposure of zero. 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 net long positions in the Industrials and Consumer Discretionary sectors contributed the most to relative performance, while our net short position in the Information Technology sector and our net long position in the Materials sector detracted.

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

### Recent activity

During the quarter, we transitioned our position in **Northland Power** from short to long. The company has a robust pipeline of renewable energy projects, and recently expanded into New York State acquiring three wind projects there totalling 300 megawatts. Additionally, their third-quarter results were in line with expectations and our model's Analyst and Sentiment scores improved meaningfully. We removed our short position in **FirstService** and put on a long position in that stock as well. 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 long positions in **BCE** and **SSR Mining**, applying short positions in both stocks instead. 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, BCE reported year-over-year lower wireless revenues, but increased residential and internet revenues. 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 205 stocks (102 long and 103 short).

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

## As of December 31, 2020

GICS sector positioning (%)	Net	Long	Short
Energy	1.4	7.0	5.6
Communication Services	1.3	6.8	5.4
Materials	1.0	17.2	16.2
Information Technology	1.0	7.2	6.2
Industrials	0.8	13.3	12.5
Consumer Discretionary	0.0	5.3	5.3
Financials	-0.3	17.9	18.2
Consumer Staples	-0.4	6.0	6.4
Real Estate	-1.5	6.4	8.0
Health Care	-1.5	0.8	2.3
Utilities	-1.8	12.2	14.0

Individual holdings (%)	GICS sector	Portfolio weight	Driving factor
<b>Top 5 holdings: long</b>			
Constellation Software	Information Technology	3.1	Profitability
Royal Bank of Canada	Financials	3.0	Technical
CIBC	Financials	3.0	Sentiment
Quebecor	Communication Services	2.7	Profitability
ATCO	Utilities	2.5	Growth
<b>Top 5 holdings: short</b>			
Bank of Nova Scotia	Financials	-3.1	Sentiment
Emera	Utilities	-3.1	Profitability
TD Bank	Financials	-3.0	Value
Fortis	Utilities	-3.0	Profitability
Telus	Communication Services	-3.0	Quality

Portfolio characteristics are subject to change.

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