RBC Global Asset Management

RBC QUBE Market Neutral World Equity Fund Q4 2020 Report

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Performance comparison as of December 31, 2020 (%)	3 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	SI*
RBC QUBE Market Neutral World Equity Fund	**-4.58**	**-7.92**	**-9.96**	**-7.26**	**-2.90**	**-2.16**	**-1.41**
FTSE 3-Month T-Bill Index	*0.02*	*0.58*	*1.41*	*1.56*	*1.38*	*1.16*	*1.09*

Series F performance in U.S. dollars, net of management fees
*Inception date is August 31, 2015.

Performance comparison as of December 31, 2020 (%)	3 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	SI*
RBC QUBE Market Neutral World Equity Fund (CAD Hedged)	**-4.52**	**-8.15**	**-10.42**	**-7.83**	**-3.53**	**-2.66**	**-1.86**
FTSE Canada 91 Day T-Bill Index	*0.03*	*0.86*	*1.26*	*1.30*	*1.11*	*0.99*	*0.95*

Series F performance in Canadian dollars, net of management fees
*Inception date is August 31, 2015.

Fund overview

The objective of the RBC QUBE Market Neutral World 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.

Global developed equity markets as measured by the MSCI World Index returned 8.69% over the quarter and 13.87% over the past 12 months. There was a meaningful shift in size, style, and sector leadership in the fourth quarter as vaccine hopes grew, and investors began to look beyond the pandemic to a more normal world. In this environment, the equity market rally broadened from a handful of U.S. mega-cap technology stocks to a much larger base of companies, industries, and regions that are more economically sensitive. These included value, small- and mid-cap stocks, as well as segments that were hardest hit by COVID-19 such as airlines, hotels, casinos and energy. The U.S. equity market, which makes up nearly two-thirds of the MSCI World Index, underperformed the major global indexes in the fourth quarter as the devastating third wave of infections was a drag on S&P 500 stocks early in the period. Following the market-friendly outcome of the U.S. presidential election and encouraging news on the vaccine front, however, the S&P 500 rebounded to reach all-time highs later in the period.

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. Despite concentration levels peaking in August and the beginning of a transition towards more broad-based contributions from stocks outside of the largest-weighted names in the index, this quarter's advancement stemmed from a rally of lower-quality stocks, which are less desirable within our multi-factor model.

In terms of attribution, our net long positions in the Information Technology and Financials sectors contributed the most to performance, while our net long positions in the Consumer Staples and Health Care sectors were the largest detractors.

At an individual stock level, our long positions in **Partners Group Holding** and **Samsung Engineering** contributed the most to performance, while a short position in **Tokyo Century** and a long position in **Zoom** were the largest detractors.

Recent activity

We increased our long position in Switzerland-based private markets asset manager **Partners Group Holding** due to its strong and improving Profitability and Quality scores as compared to peers operating in the same industry. Specifically, the company has a particularly high cash flow return on investment (CFROI) metric.

We reduced our short positions in **Danaher** and **Hasbro**. Danaher is a U.S. health care technology and equipment business, and its Sentiment and Technical scores improved meaningfully within our security selection model. Meanwhile, toy conglomerate Hasbro still scores quite poorly according to our security selection model, but our outlook for the stock was boosted in terms of our sector selection model, as the Household Durables subsector became more attractive.

Finally, we took a short position in **Adidas** in October and steadily increased its weight throughout the quarter. The stock scores poorly across our models, with particularly negative metrics according to our Profitability, Growth, and Technical factors.

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 307 stocks (158 long and 149 short) across 24 countries, out of a total of 2,982 stocks in the MSCI All Country World Index. Emerging market stocks represented 13.6% of the long holdings in the portfolio, and 8.0% of the stocks sold short.

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

As of December 31, 2020

GICS sector positioning (%)	Net	Long	Short
Information Technology	2.8	18.5	15.7
Financials	2.5	11.6	9.2
Consumer Staples	2.2	8.4	6.3
Health Care	0.9	12.8	11.9
Materials	0.9	4.8	3.9
Utilities	0.4	3.2	2.8
Communication Services	-1.6	4.7	6.2
Industrials	-1.8	16.0	17.6
Consumer Discretionary	-2.0	17.3	19.1
Energy	-2.0	2.2	4.1
Real Estate	-2.9	0.5	3.2

Individual holdings (%)	GICS sector	Portfolio weight	Driving factor
Top 5 holdings: long			
Partners Group	Financials	3.9	Profitability
Kone OYJ	Industrials	2.8	Profitability
Constellation Software	Information Technology	2.7	Quality
Home Depot	Consumer Discretionary	2.6	Profitability
Ameriprise Financial	Financials	2.3	Profitability
Top 5 holdings: short			
Ansys	Information Technology	-2.8	Quality
Dassault Systems	Information Technology	-2.8	Quality
East Japan Railway	Industrials	-2.5	Growth
T-Mobile	Communication Services	-2.5	Quality
Tokyo Century	Financials	-2.5	Quality

Regional positioning (%)	Net	Long	Short
Europe ex-UK	5.3	30.0	24.7
EM EMEA	2.3	2.8	0.4
EM Latin America	2.2	3.1	0.9
EM Asia	1.1	7.8	6.7
Asia-Pacific ex-Japan	-1.6	1.6	3.2
North America	-1.9	42.5	44.4
United Kingdom	-2.8	0.1	2.9
Japan	-4.6	12.2	16.9

Portfolio characteristics are subject to change.

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