



RBC QUBE 120/20 Canadian Equity Fund

Q1 2019 Quarterly Report

Performance

| Performance Comparison as March 31, 2019 (%) | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|
| | 3 Mo | 1 Yr | 2 Yr | 3 Yr | 4 Yr | 5 Yr | SI* |
| RBC QUBE 120/20 Canadian Equity Fund | 11.29 | 4.94 | 4.07 | 8.01 | 4.36 | 4.52 | 5.63 |
| S&P/TSX Capped Composite Index | 13.29 | 8.11 | 4.86 | 9.26 | 5.07 | 5.44 | 6.53 |
| Relative Performance | -2.00 | -3.17 | -0.79 | -1.25 | -0.71 | -0.92 | -0.90 |

Series F performance in Canadian dollars.

*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%.

Underlying our approach is 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

In Canada, after lagging all major equity markets in 2018, the S&P/TSX participated in the broad equity market rebound in the first quarter and

ultimately surpassed its various regional counterparts, generating the strongest gains of the period. The Energy sector recovered from its meaningfully negative Q4 performance thanks to the global rebound in oil prices and production cuts in Alberta. Health Care continued its volatile streak driven by cannabis-related equities; after declining more than 35% in the fourth quarter it finished the most recent period with a staggering 49% gain. The sector's small weight in the index – just over 2% – has prevented these dramatic swings from having a meaningful effect on the market. The Information Technology sector also generated notably strong performance, though all eleven sectors posted gains.

Fund Performance

Despite a steady move higher in equity markets, factor performance can be split into two distinct periods thus far in 2019. The year began with encouraging performance from the Value factor (a focus on companies that score cheaper than their peers), which had appeared to stabilize after previously lagging for much of the past two years. At the end of January, however, the U.S. Federal Reserve signaled a more dovish tone with regards to economic growth and interest rate increases, which caused the Value factor to reverse course and erase its January gains.

Traditionally, prolonged underperformance of the Value factor coupled with the Technical (momentum) factor lagging like we've seen has preceded many past large market corrections in history, and is something we are keeping a close

eye on. Generally, when optimism in the economy decreases, the cheaper (value) stocks underperform, as these companies are more at risk during periods of weak market performance. As the market corrects, value stocks often post very strong returns as investors re-evaluate the price of more expensive stocks in light of a worsening economic environment.

Offsetting weakness in the Value factor this quarter was leadership from the Analyst and Growth factors.

Periods of strong and weak performance of Value are normal parts of market cycles, and we would expect factor leadership to shift as the cycle evolves. The fund's investment strategy employs multiple factors in part because individual factors will tend to outperform at different times in the economic cycle, and traditionally performs better when factor leadership is more broadly diversified. Narrow factor leadership and a noisy macroeconomic environment has contributed to underperformance over the past year, while longer term performance for the fund remains strong.

In total, three of seven security selection alpha factors contributed to performance over the quarter and four of seven contributed to performance over the one-year period.

In terms of individual stocks, the fund employs a high-breadth strategy; that is, our goal is to add value through a large number of small positive contributions, rather than through the impact of a few large winners in a concentrated portfolio.

Recent Activity

We removed our long and overweight position in electric utility company **Fortis** and initiated a small short position in the name. The company recently posted a higher capital expenditure charge in accordance with their new five-year plan to increase spending in an attempt to grow their rate base. This result negatively impacts the company's ability to produce free cash flow growth over the coming years, which is an important measure within our model's Growth factor exposure.

Also within the Utilities sector, we increased our long position in **Northland Power** and are now overweight the stock. In contrast to Fortis, Northland Power's free cash flow is growing as the bulk of their projects have been completed and the implementation of each was successful without any major delays or cost overruns. Specifically, by the end of this year, renewable offshore wind is expected to generate two thirds of the company's EBITDA.

We initiated a long and slightly overweight position in **Restaurant Brands International**. Although the company ranks negatively according to our measure of Value, its Analyst score improved meaningfully as recent sales initiatives and leadership changes provided newfound confidence in the stock.

QUBE Research Update

The team continues to work on an ongoing project focused on improving trading efficiency. We believe that short- and long-term alpha factor components should trade with different frequency, and that the disaggregation of these components would lead to more efficient and timely trading. Separating short- and long-term components – such as price and earnings in the P/E ratio, for example – facilitates direct comparison with other components that change at a similar pace. By tilting a small fraction of the portfolio to shorter-term signals in certain strategies, we expect to add a new source of value-added and to reduce correlation between trade lists at successive rebalances. This should allow us to trade our funds more frequently and more efficiently while maintaining our alpha capture within our larger funds.

Positioning

As of March 31, 2019, the portfolio held positions in 163 stocks (116 long and 47 short).

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



As of March 31, 2019

| GICS Sector Positioning (%) | Long | Short | Net | Benchmark | Relative |
|-----------------------------|------|-------|------|-----------|----------|
| Communication Services | 8.4 | - | 8.4 | 5.8 | 2.7 |
| Industrials | 16.0 | -3.4 | 12.6 | 10.9 | 1.6 |
| Energy | 23.1 | -3.8 | 19.3 | 18.0 | 1.2 |
| Consumer Staples | 5.6 | -0.6 | 5.1 | 3.9 | 1.2 |
| Real Estate | 4.5 | -0.3 | 4.2 | 3.5 | 0.7 |
| Consumer Discretionary | 5.6 | -1.0 | 4.5 | 4.1 | 0.4 |
| Information Technology | 5.4 | -1.4 | 4.0 | 4.5 | -0.4 |
| Health Care | 1.8 | -1.0 | 0.7 | 2.2 | -1.5 |
| Utilities | 4.9 | -2.3 | 2.6 | 4.2 | -1.6 |
| Materials | 14.9 | -5.7 | 9.2 | 11.2 | -2.0 |
| Financials | 30.4 | -1.0 | 29.4 | 31.7 | -2.3 |

| Individual Holdings (%) | GICS Sector | Portfolio Weight | Over/Under Weight | Driving Factor |
|-----------------------------|-------------|------------------|-------------------|----------------|
| Top 5 Overweights | | | | |
| Pembina Pipeline | Energy | 3.7 | 2.6 | Growth |
| Royal Bank of Canada | Financials | 9.0 | 2.6 | Analyst |
| TD Bank | Financials | 8.4 | 2.5 | Technical |
| Canadian Pacific Railway | Industrials | 4.2 | 2.5 | Technical |
| Parkland Fuel | Energy | 2.2 | 1.9 | Technical |
| Top 5 Underweights | | | | |
| Bank of Montreal | Financials | 0.3 | -2.5 | Value |
| Bank of Nova Scotia | Financials | 1.5 | -2.3 | Analyst |
| Wheaton Precious Metals | Materials | -1.6 | -2.3 | Sentiment |
| Brookfield Asset Management | Financials | 0.2 | -2.2 | Quality |
| TransCanada | Energy | 0.3 | -2.1 | Growth |

Portfolio characteristics are subject to change.

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