



# RBC QUBE Market Neutral Canadian Equity Fund

## Q1 2019 Quarterly Report

### Performance

Performance Comparison as of March 31, 2019 (%)							
	3 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	SI*
RBC QUBE Market Neutral Canadian Equity Fund	0.27	-0.78	2.00	2.03	0.67	1.35	2.28
<i>FTSE Canada 91 Day T-Bill Index</i>	0.40	1.47	1.11	0.90	0.81	0.83	0.88
Relative Performance	-0.13	-2.25	+0.89	+1.13	-0.14	+0.52	+1.40

Series F performance in Canadian dollars.  
\*Inception date is August 31, 2012.

### Fund Overview

The fund's objective is to provide consistent absolute returns that are substantially independent of the performance of broad equity and fixed income markets. Our process is designed to assemble a portfolio of long positions in companies with a more attractive combination of these characteristics than those securities we sell short, while targeting equity market exposure of zero.

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 six 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. This past quarter, the effect of stock-specific events outside of our security selection and sector selection alpha models was minimal.

## Recent Activity

We removed our long position in electric utility company **Fortis** and initiated a short position in the name. This 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**. 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 reduced our short position in **Restaurant Brands International** after its Analyst score improved meaningfully. Although the company still ranks negatively according to our measure of Value, recent sales initiatives and leadership changes have inspired newfound confidence in the stock among industry analysts.

## 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 188 stocks (93 long and 95 short).

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



**As of March 31, 2019**

GICS Sector Positioning (%)	Net	Long	Short
Communication Services	3.1	6.6	-3.5
Industrials	1.7	14.7	-13.1
Energy	1.2	16.5	-15.3
Consumer Discretionary	0.9	5.2	-4.2
Real Estate	0.3	6.0	-5.7
Consumer Staples	-0.2	5.9	-6.1
Information Technology	-0.5	6.4	-6.9
Utilities	-0.9	9.9	-10.7
Health Care	-1.0	1.1	-2.0
Financials	-2.6	12.7	-15.3
Materials	-3.8	16.9	-20.7

Individual Holdings (%)	GICS Sector	Portfolio Weight	Driving Factor
<b>Top 5 Holdings: Long</b>			
Parkland Fuel	Energy	3.3	Technical
Pembina Pipeline	Energy	3.1	Growth
Constellation Software	Information Technology	3.1	Profitability
Canadian Pacific Railway	Industrials	3.1	Technical
TFI International	Industrials	3.0	Technical
<b>Top 5 Holdings: Short</b>			
Wheaton Precious Metals	Materials	-3.4	Sentiment
Descartes Systems Group	Information Technology	-3.3	Value
Vermilion Energy	Energy	-3.0	Quality
TransCanada	Energy	-2.9	Growth
Canadian Utilities	Utilities	-2.9	Technical

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: April 17, 2019.

®/™ Trademark(s) of Royal Bank of Canada. Used under licence.

© RBC Global Asset Management Inc. 2019.

