RBC QUBE Market Neutral World 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 World Equity Fund	**-1.91**	**-7.85**	**2.94**	**2.46**	-	-	**3.25**
FTSE 3-Month T-Bill Index	*0.60*	*2.11*	*1.59*	*1.17*	-	-	*1.00*
Relative Performance	-2.51	-9.96	+1.35	+1.29	-	-	+2.25

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

Performance Comparison as of March 31, 2019 (%)

	3 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	SI*
RBC QUBE Market Neutral World Equity Fund (CAD Hedged)	**-2.15**	**-8.70**	**2.03**	**1.87**	-	-	**2.78**
FTSE Canada 91 Day T-Bill Index	*0.40*	*1.47*	*1.11*	*0.90*	-	-	*0.82*
Relative Performance	-2.55	-10.17	+0.92	+0.97	-	-	+1.96

Series F performance in Canadian dollars.
*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

Financial markets suffered a bout of extreme volatility in late 2018, punctuated by a sharp decline in stock markets that deflated many international equity indexes into “bear” territory, defined as a peak-to-trough decline of 20 percent or more. Fortunately, equity markets have substantially reversed course since then, recovering much lost ground in the first quarter of 2019. December’s precipitous decline coincided with extreme levels of investor pessimism fueled by anxiety about slowing economic growth, U.S. Federal Reserve (Fed) interest-rate hikes, and the threat of another round of tariffs between the U.S. and China. While the declining economic growth trajectory remains a concern, subsequent dovish statements from the Fed and Trump’s newfound will to strike a trade deal with China have since led to a restoration of investor confidence and stock market optimism.

Providing more detail on equity market performance, the broad-based sell-off in stocks last year moved equities to especially attractive valuations, which set up the preconditions for the subsequent rally experienced in the first quarter.

Major developed markets as measured by the MSCI World Index returned 12.48% over the quarter in U.S. dollar terms. The global equity returns of Canadian investors suffered modestly due to the slight weakening of the U.S. dollar, and the index returned 10.02% over the first quarter in CAD. Following a difficult year and three consecutive negative quarters, emerging markets (EM) recovered some ground in the first quarter of 2019 and the MSCI Emerging Markets Index returned 7.51% over the period. The Information Technology and Consumer Discretionary sectors, which make up meaningful weights in the index, experienced meaningful rebounds and were among the index's top performers in Q1.

Fund Performance

Despite steadily rising equity markets in the first quarter, factor leadership 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 whose shares are cheaper than their peers), which had begun to stabilize after lagging for much of the past two years. At the end of January, however, the U.S. Federal Reserve signalled a more dovish tone with regards to economic growth and interest rate increases, and subsequently Value reversed course and erased its January gains.

Prolonged underperformance of the Value and Technical (momentum) factors – the latter also lagged in 2018 – has preceded many past large market corrections in history, and this 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 Profitability factor. This factor leadership is in line with what we would expect given current macroeconomic uncertainty and is characteristic of a later-stage market environment.

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; as a result the fund typically performs better when factor leadership is more broadly diversified. Narrow factor leadership and a noisy macroeconomic environment have contributed to underperformance over the quarter and the past year.

In total, two of seven security selection alpha factors contributed to performance over the quarter and three 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. Two detractors this quarter were a short position in American payment processing firm **Worldpay**, and a long position in Japanese pharmaceutical company **Eisai**. Worldpay's share price increased 14.8% in February as management announced good results and high expectations for future sales. Then, the firm received a takeover offer from Fidelity National Information Services in March and its share price increased a further 11.8%. Both events negatively impacted our short position in the name. On the long side, Eisai's stock price dropped by 31% following the firm's announcement that it was terminating the development of a drug that was hoped would minimize the impact of Alzheimer's disease.

Recent Activity

During the quarter, we increased our long position in diagnostics and prescription pharmaceuticals business **Roche**. The stock is now the portfolio's second-largest holding and scores well across a broad range of factor exposures we measure including Profitability, Analyst, and Quality. We added to our exposure following a jump in Technical (momentum) indicators along with an increase in the number of “buy” recommendations from top sell-side analysts. Also on the long side of the portfolio, we removed our long position in retailing company **Target**. We still view the stock favourably from a valuation perspective, but our model’s views of Growth and Profitability are negative and these factors declined further over the quarter.

Global security company **Northrop Grumman**, a profitable short position for us during the fourth quarter of 2018, was covered this quarter. A key driver of this trade was the substantial recovery of the stock’s Quality factor. Our model’s measure of Quality takes into account the short-term challenges a company faces following large M&A transactions – such as Northrop Grumman’s acquisition of Orbital ATK, announced in September 2017 – but the downward adjustment is subsequently removed once five quarters have passed.

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 194 stocks (98 long and 96 short) across 24 countries, out of a total of 2,769 stocks in the MSCI All Country World Index. Emerging market stocks represented 10.2% of the long holdings in the portfolio, and 4.1% of the stocks sold short.

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

As of March 31, 2019

GICS Sector Positioning (%)	Net	Long	Short
Information Technology	6.5	15.8	-9.3
Energy	3.6	10.5	-6.9
Industrials	3.3	14.8	-11.4
Health Care	2.8	13.0	-10.2
Consumer Staples	2.3	5.6	-3.3
Materials	-1.3	8.1	-9.4
Communication Services	-2.1	3.4	-5.5
Utilities	-2.6	0.2	-2.8
Real Estate	-2.8	3.2	-6.0
Financials	-2.9	8.9	-11.7
Consumer Discretionary	-4.8	17.2	-22.0

Individual Holdings (%)	GICS Sector	Portfolio Weight	Driving Factor
Top 5 Holdings: Long			
Ross Stores	Consumer Discretionary	3.6	Profitability
Roche	Health Care	3.5	Profitability
Ameriprise Financial	Financials	3.4	Value
ConocoPhillips	Energy	3.0	Analyst
Peugeot	Consumer Discretionary	3.0	Value
Top 5 Holdings: Short			
Richemont	Consumer Discretionary	-3.5	Quality
General Dynamics	Industrials	-3.5	Quality
Wendel	Financials	-3.4	Value
Lonza Group	Health Care	-3.3	Analyst
Daimler	Consumer Discretionary	-3.3	Sentiment

Regional Positioning (%)	Net	Long	Short
EM Asia	6.2	8.2	-2.0
Europe ex-UK	4.9	31.1	-26.2
EM Latin America	0.2	0.2	0.0
United Kingdom	0.0	2.3	-2.3
Asia-Pacific ex-Japan	0.0	4.0	-4.0
EM EMEA	-0.2	1.9	-2.1
North America	-4.2	40.5	-44.7
Japan	-4.8	12.4	-17.2

Portfolio characteristics are subject to change.

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