QBTL

AGFiQ US Market Neutral Anti-Beta CAD-Hedged ETF (QBTL)

Investment Snapshot with Bill DeRoche

Bill DeRoche, Chief Investment Officer and Head of AGFiQ Alternative Strategies at AGF Investments, is a leader of AGF's quantitative investment platform, AGFiQ. Bill has long-tenured expertise employing quantitative factor-based strategies and alternative approaches to achieve a spectrum of investment objectives. Bill and the AGFiQ investment team have a strong track record within factor-based investing, having launched their first ETFs in the US market nearly a decade ago.

What drove the decision to launch this type of strategy?

Bill DeRoche (BD): Following the Global Financial Crisis, we were looking at ways a strategy could potentially insulate during a large market sell-off. In 2011, we designed and launched a strategy in an ETF for U.S.-based investors that we believe helps protect against downturns in the market. We worked with our investment team at AGFiQ to create a liquid alternative strategy that could potentially help dampen the blow volatility brings to a portfolio during these types of sell-off events.

What is the investment philosophy?

BD: QBTL aims for a negative beta relative to the U.S. equity market through the spread return between a long portfolio of low-beta U.S. equity stocks and short positions in high-beta U.S. equity stocks. It seeks to generate positive returns when the long low-beta portfolio outperforms the short high-beta portfolio. Over the long-term, QBTL may give up some of the upside in order to hedge a significant portion of the downside. When the market moves higher, it may underperform due to its exposure to negative beta but when the market moves lower, QBTL is expected to outperform.

How is it constructed?

BD: It tracks a customized dollar neutral index that is managed by S&P Dow Jones. The initial universe for the construction of this index is the Dow Jones U.S. equity universe. We remove any securities that do not meet minimum average daily trading volumes, as well as those that do not have the required 52 weeks of returns necessary to calculate the beta factor, which is used to construct the portfolios.

Then, the 1,000 largest remaining securities are sorted from lowest beta to highest beta, with beta defined as the 52-week covariance of the security's returns with the S&P 500.

The top 200 lowest beta securities on a sector neutral basis (quintile #1) are equally weighted at 0.5% each (or 50 basis points1 (“bps”) on rebalance/reconstitution day to construct the long low-beta portfolio. The bottom 200 highest beta securities on a sector neutral basis (quintile #5) are equally weighted at 50 bps each on rebalance/reconstitution day to construct the short high-beta portfolio.

Sector neutrality is achieved through counts. For example, if there are 120 financial securities in initial universe of 1,000 securities, the long portfolio will hold 24 financial securities at 50 bps each (20% of 120) and the short portfolio will also hold 24 financial securities at 50 bps each. The long financial positions will consist of the 24 lowest beta securities within the 120 financials in the initial universe. The short financial positions will consist of the 24 highest beta securities within the 120 financials in the initial universe.

What is the rebalance frequency?

BD: It’s scheduled to rebalance and reconstitute once every three months on the last business day in February, May, August and November. The rebalancing restores the ETF to equally weighted 50 bps positions as well as restoring the Fund to its desired gross leverage of 200% (100% long equity exposure plus 100% short equity exposure).

Between rebalances, the weights in the Fund can float due to daily market movements.

These rebalances are designed to attempt to consistently maintain the desired exposures.

How does it work?

BD: QBTL’s long/short construction helps drive the return profile, aided by market volatility with a negative correlation to the broad equity market. Historically, high-beta stocks tend to sell off more than low-beta stocks during periods of volatility and the high-beta stocks held in short positions underperform, this can lead to a spread return that generates positive results

For more on AGFiQ’s US Market Neutral Anti-Beta CAD-Hedged ETF, please visit AGF.com

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