

## AGFiQ Quarterly Commentary

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### AGFiQ ETFs

#### OVERVIEW

Equity markets worldwide ended the quarter mixed, leading to an overall choppy third quarter in 2018, while higher yields led to overall negative returns in Fixed Income. Trade negotiations continued to be in focus as tensions increased between the US and China, and Canada and the US settled on a revised NAFTA (renamed USMCA) deal. Negotiations between the US and Europe also continued as the two sides agreed to work toward decreasing tariffs.

US economic data was strong through the quarter with stronger than expected GDP and employment figures but in-line inflation. The US Federal Reserve chose to increase rates by 0.25% for the third time this year, reiterating the possibility of three future rate hikes in 2019.

European data was in-line, but geopolitical concerns around regional elections weighed on sentiment. Japanese economic data was strong with solid inflation, employment, and GDP figures. In the UK, Brexit was in focus as negotiators were close to finalizing a deal. The European Central Bank and Bank of Japan chose to keep rates steady, while the Bank of England chose to raise rates.

The Chinese economy continued growth with solid numbers, posting 6.7% GDP growth and robust loan growth. Other economic data releases from China and other Emerging Market countries were generally in-line with expectations, with the exception of Brazil.

The US Dollar was volatile through the quarter, ending the period flat vs most currencies. Gold fell while oil was weaker to start but rallied towards the end of the quarter, breaching \$73/barrel. The US 10-year benchmark yield moved higher ending the quarter slightly above 3%.

#### AGFIQ ENHANCED CORE CANADIAN EQUITY ETF (QCD)

- The S&P/TSX Composite Index (-0.6%) was soft through the third quarter of 2018. QCD (-1.9%) underperformed the benchmark.
- From a Factor / Style perspective, the Fund benefitted from exposure to Low Volatility, while exposure to Small Cap detracted from the Fund's returns.
- From a Sector perspective, the Fund benefitted from an overweight position in Communication Services and underweight positions in Industrials and Financials, while an overweight position in Materials and an underweight position in Energy detracted from the Fund's returns.
- Being underweight Enbridge Inc. helped the Fund, while holding Barrick Gold Corp, Franco-Nevada Corp and West Fraser Timber Co., detracted from the Fund's returns.

#### AGFIQ ENHANCED CORE EMERGING MARKETS EQUITY ETF (QEM)

- The MSCI Emerging Markets Index (-2.7%) was weaker through the third quarter of 2018. QEM (-3.2%) underperformed the benchmark.
- From a Factor / Style perspective, the Fund benefitted from exposure to Low Volatility, Momentum and Size, and from lack of exposure to Growth.
- From a Regional perspective, the Fund benefitted from exposure to Malaysia and China, and from a lack of exposure to South Africa, while exposure to Turkey and Hong Kong, and lack of exposure to Korea and Brazil, detracted from the Fund's returns.
- From Sector perspective, the Fund benefitted from overweight positions in Information Technology and Telecommunication Services, while an overweight position in Health Care detracted from the Fund's returns.
- Being underweight South African Naspers and Chinese Tencent Holdings helped the Fund, while holding Chinese China Medical System Holdings and Turkish AKBANK TAS, detracted from the Fund's returns.

#### AGFIQ ENHANCED CORE US EQUITY ETF (QUS)

- The S&P 500 Net Return Index (+5.7%) was strong through the third quarter of 2018. QUS (+6.6%) outperformed the benchmark.
- From a Factor / Style perspective, the Fund benefitted from exposure to Volatility and lack of exposure to Growth, while having exposure to Small Size detracted from the Fund's returns.
- From a Sector perspective, the Fund benefitted from overweight positions in Consumer Discretionary, Health Care, and Information Technology, while underweight positions in Industrials, Utilities and Communication Services, detracted from the Fund's returns.
- Being overweight Target Co. and AutoZone Inc. helped the Fund, while being underweight Amazon.com and Berkshire Hathaway, detracted from the Fund's returns.

#### AGFIQ ENHANCED CORE INTERNATIONAL EQUITY ETF (QIE)

- The MSCI EAFE Net Index (-0.4%) was weak through the quarter. QIE (-0.7%) slightly underperformed the benchmark.
- From a Factor / Style perspective, lack of exposure to Volatility helped the Fund, while lack of exposure to Size and Value detracted from the Fund's returns.
- From a Regional perspective, exposure to Europe helped the Fund but exposure to Asia (Developed Markets) detracted from the Fund's returns.
- From a Sector perspective, the Fund benefitted from an underweight position in Industrials and an overweight position in Communication Services, while underweight

positions in Financials and Utilities detracted from the Fund's returns.

- The biggest contributor to the Fund was Japanese Sony Corporation, while the biggest detractor was Japanese McDonald's Holdings Company Japan Ltd.

#### AGFIQ ENHANCED GLOBAL INFRASTRUCTURE ETF (QIF)

- The Dow Jones Brookfield Global Infrastructure Net Index (-2.6%) was weak through the quarter. QIF (-1.1%) outperformed the benchmark.
- From Factor / Style perspective, exposure to Value and a lack of exposure to Volatility benefitted the Fund.
- From a Regional perspective, being overweight Emerging Markets helped the Fund, while being overweight Canada, detracted from the Fund's returns.
- From a Sector perspective, the Fund benefitted from an overweight position in Transportation, while an underweight position in Energy detracted from the Fund's returns.
- Being underweight Italian Atlatia Spa contributed most to the Fund, while being underweight US PG&G Corporation, detracted from the Fund's returns.

#### AGFIQ ENHANCED GLOBAL ESG FACTORS ETF (QEF)

- The MSCI All Country World Net Index (+2.5%) was strong through the third quarter of 2018. QEF (+1.6%) underperformed the benchmark.
- From a Factor / Style perspective, the Fund benefitted from exposure to Low Volatility, Quality, and Value, while lack of exposure to Large Cap, detracted from the Fund's returns.
- From Regional perspective, the Fund benefitted from exposure to Developed Markets and from lack of exposure to Emerging Markets, while lack of exposure to the US detracted from the Fund's returns.
- From Sector perspective, the Fund benefited from underweight positions in Consumer Discretionary and Materials, while holding overweight positions in Financials and Information Technology, detracted from the Fund's returns.

## AGFIQ Portfolio Solutions

### AGFIQ GLOBAL EQUITY ROTATION ETF (QGL)

- The MSCI All Country World Index (+2.6%) was strong through the third quarter of 2018. QGL (+2.7%) outperformed the benchmark.
- From a Factor / Style perspective, 12 month CDS Change (a proxy for credit risk), Account Balance of GDP, and Estimate Revision were among the best factors. Meanwhile, Momentum and Value lagged.
- From a Regional perspective, the Fund benefitted from an overweight position in Emerging Markets and an underweight position in Europe, Australasia and the Far East (EAFE).
- From a Country perspective, the Fund benefitted from underweight positions in United Kingdom and Canada, while overweight positions in China and South Korea detracted from the Fund's returns.

### AGFIQ MULTIASSET ALLOCATION ETF (QMA)

- The blended benchmark (60% MSCI All Country World Index / 40% Bloomberg Barclays Multiverse Index) (+1.5%) was solid through the quarter. QMA (+1.7%) outperformed the benchmark.
- QMA had a higher risk profile than its benchmark in the last 75 days due to its overweight in Emerging Market equities.
- From an Asset Allocation perspective, the Fund maintained a neutral (60/40) allocation to equities and bonds respectively, through the quarter. The overall return of equities was higher than bonds, which were hedged. In July and September, the currency hedge helped bonds (the CAD appreciated by almost 1% in each month).
- Allocation within fixed income contributed to Fund performance. US High yield was the top contributor, while Emerging Markets were the top detractor. In addition, the US aggregate bond sector has been a detractor due to the tracking error of Vanguard US Aggregate bond ETF.
- From a Factor / Style perspective, Momentum breadth has been bullish on equities.

### AGFIQ MULTIASSET INCOME ALLOCATION ETF (QMY)

- The Bloomberg Barclays Global Aggregate Index (-0.2%) was soft through the quarter. QMY (+0.8%) outperformed the benchmark.

- The Fund had a higher risk profile than its benchmark in the last 75 days due to its equity exposures.
- Tactical allocation (i.e. the risk factor) added value through the quarter. Being underweight the Global Infrastructure market helped the Fund, while being underweight preferred shares, detracted from the Fund's returns.
- The Fund has the largest overweight in QEF, with similar underweight positions in QIF, Canadian and US Preferred shares, Canadian Hybrid and US Corporate bonds.

### **About AGFiQ**

We believe discipline makes the difference. Our suite of investment capabilities are powered by a multidisciplinary, intellectually diverse team that combines the complementary strengths of investment professionals from FFCM, LLC. (an adviser registered in the U.S.) and Highstreet Asset Management Inc. (a Canadian registered portfolio manager) – a collaboration we call AGFiQ.

## Disclaimer

AGFiQ Asset Management (AGFiQ) is a collaboration of investment professionals from Highstreet Asset Management Inc., a Canadian registered portfolio manager, and of FFCM, LLC, a U.S. registered adviser. This collaboration makes up the quantitative investment team.

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