AGFiQ Q&A

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Active ETFs with a difference. AGFiQ added 2 actively managed ETFs in February 2018, bringing our suite of ETF's to 6 enhanced core and 3 portfolio solutions. We sat down with Mark Stacey and Grant Wang, Co-CIOs, to discuss their different approach to diversification and managing risk through multi-factor investing.

Q: Who is AGFiQ?

AGFiQ Asset Management (AGFiQ) is the quantitative investment platform for AGF, combining the complementary strengths of investment professionals from Highstreet Asset Management Inc. (Highstreet) and FFCM, LLC (FFCM). FFCM has been a pioneer for factor-based investing in the U.S. and brings their expertise in managing both ETF strategies and products through a quantitative lens. Highstreet brings a strong track record of managing active quantitative strategies in Canada since 1998.

We aim to capture alpha by managing exposures to factors like value, growth, quality and momentum, with a focus on delivering solutions designed to provide our clients with better risk-adjusted returns.

Q: What is your differentiated approach?

Our key differentiator is our quantitative and fundamental approach. We aim to balance risk with reward. To do so, we think of risk at every stage of the investment process to balance it against the opportunities we are taking. We want to take advantage of our quantitative models and the opportunities they highlight but want to make sure the bet we make is sized appropriately.

Risk is tightly controlled to create predictable experiences for our clients. We focus on risk because we recognize that downside protection is important. A classic example is that if you lose 50% of your money it takes a 100% increase to make it back. We try to capture alpha without undue risk.

At AGFiQ, our multi-factor approach allows for intelligent portfolio construction that provide opportunities for total return while also actively managing risk and the potential for losses.

Q: How does a multi-factor approach improve outcomes?

A multi-factor approach is a diversified and robust way of investing. Investment performance is driven by various factors like value, growth, momentum and quality over long periods of time. However, as you can see in the table above, these factors can go in and out of favour at different times in shorter periods.

In order to have consistent investment outcomes, we ensure we have diversified alpha drivers in our investment process that can carry

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Volatility -29.23	Size 42.05	Size 18.19	Volatility 8.04	Size 16.69	Value 32.66	Volatility 12.06	Volatility 5.82	Size 9.38	Momentum 32.59
Quality -37.54	Value 41.87	Momentum 16.54	Momentum 4.79	Quality 15.44	Momentum 30.28	Quality 7.26	Momentum 4.54	Value 8.86	Size 23.92
Momentum -39.92	Quality 32.32	Quality 13.31	Quality -0.06	Value 15.01	Quality 26.56	Momentum 7.03	Quality 3.14	Volatility 8.18	Quality 23.89
Size -41.92	Volatility 17.18	Volatility 12.76	Size -9.34	Momentum 14.79	Size 26.53	Value 4.56	Size -1.05	Quality 5.63	Value 22.88
Value -42.63	Momentum 14.76	Value 9.15	Value -11.05	Volatility 8.87	Volatility 19.41	Size 3.42	Value -2.73	Momentum 4.75	Volatility 18.04

The chart represents the MSCI factor indexes calendar year performance for quality, momentum, value, size and volatility expressed in U.S. dollar terms. Source: Morningstar as of December 31, 2017.

AGFiQ™

over through different market cycles; secondly, we have low portfolio turnover which in turn reduces transaction costs and generates better after cost performance. Finally, our multi-factor approach allows us to know where the risk is coming from, which in turn allows us to better manage risk.

Q: There are misconceptions around quantitative investment management being labelled as "black box", can you talk about how fundamental factors are at the core of your process?

Our quantitative models are just one piece of our process. We are fundamentally-based quantitative managers, so our analysis is based on the same financial statements as traditional fundamental analysts would use.

TRUST BUT VERIFY. Our investment decisions are not fully driven by our computer models, we discover and verify which factors are the actual drivers of performance. We take the investment concept first, i.e. buy cheaper stocks, and then prove it. We identify and take the fundamental factors that matter in investing in stocks and evaluate our models on a daily basis. If the model is telling us it's a good stock, we can understand why it's a good stock, why it's better than other stocks, and verify based on the fundamental data points. Our models link to what's actually happening in the market.

Q: How does your approach continue to evolve?

It's a multi-dimensional investment world out there. Macroeconomic events and technological disruptions are playing a larger role on stock performance. In this environment, we have to go beyond traditional financial information and incorporate macro information and industry-specific technological innovation.

Factor research is a big part of what we do. We try to take advantage of innovative ideas from academic and industry research. Information can come from different sources like the derivatives world, unstructured world, such as regulatory filings, and social media sentiments, like those pulled from Twitter.

Q: How might your AGFiQ ETFs fit into clients' portfolios?

We offer three ETF portfolio solutions with clear investment objectives targeting specific client outcomes: balanced asset allocation (AGFiQ Multi-Asset Allocation ETF or QMA), global market exposure (AGFiQ Multi-Asset Global Equity Rotation ETF or QGL) and income generation (AGFiQ Multi-Asset Income Allocation ETF or QMY), and four enhanced core ETFs, where investors can get cost-effective core equity exposure to Canada (QCD), the United States (QUS) as well as international (QIE) and emerging markets (QEM).

All of our AGFiQ ETFs deliver strategies that combine the benefits of active management and those of traditional smart-beta factor-based strategies for your clients' portfolios – the intersection of active management and smart-beta indexed products. They deliver exposure to the markets through a disciplined process focused on the factors that drive returns while providing the active management oversight to manage risk and the potential for losses.

AGFiQ team by the numbers

250[1]	Years of experience	21	Member investment team	6	PhDs	13	Masters	13	CFA® Charter-holders

For more information on AGFiQ ETFs please visit AGFiQ.com.

[1] The 250 years of experience is an aggregate cumulative number from Highstreet Asset Management Inc. and FFCM, LLC.

* A registered Advising Representative in Canada with Highstreet Asset Management Inc., a subsidiary of AGF Investments Inc.

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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