

# NBI Liquid Alternatives ETF (NALT)

Glass Box Series

## NALT: Engine Maintenance

### Highlights

- › The work undertaken since the NALT was launched in 2019 has led to the addition of a new quantitative investment model as well as to adjustments in model risk-controls.
- › In the future, we will continue to assess potential future additions to both the Fund's investment universe and its quantitative model roster.

### Introduction

The NALT's investment objective is to provide a positive return while maintaining low correlation to, and lower volatility than, the return of the global equity markets. It aims to achieve this investment objective regardless of prevailing market conditions or general market direction.

### Strategy

NALT implements what is called a Systematic Global Macro ("SGM") investment strategy. SGM strategies use quantitative investment ("QI") models to compute the capital allocation for a range of selected financial instruments. The QI models aim to achieve an optimal risk-return balance given the investment objective, while avoiding emotional and sometimes irrational human reactions.

To further improve performance, NALT uses ensemble methods, which can also help in reducing potential model risk. The overall asset weightings aggregate the recommendations from several diverse and independent quantitative models. Such approach is similar to that of portfolio managers whose recommendations typically result from the analysis work of their team.

The strategy's current investment universe is composed of 22 futures contracts that fall within the following asset classes: U.S. government bonds (5), foreign currencies (4), metal commodities (3), agricultural commodities (5), and energy commodities (5). The absence of equity index futures contracts contributes to the NALT's decorrelation to equity indices.

On top of the asset allocation functions, different types of risk-controls are also embedded in the QI models in order to maintain the highest possible level of consistency in the Fund's risk-return-decorrelation profile. All final model weightings go through an additional human verification step, which can be compared to that of an internal compliance or risk management team.

Additional information on the strategy can be found in the previous Glass Box Series publication [\*NALT: What's under the hood.\*](#)

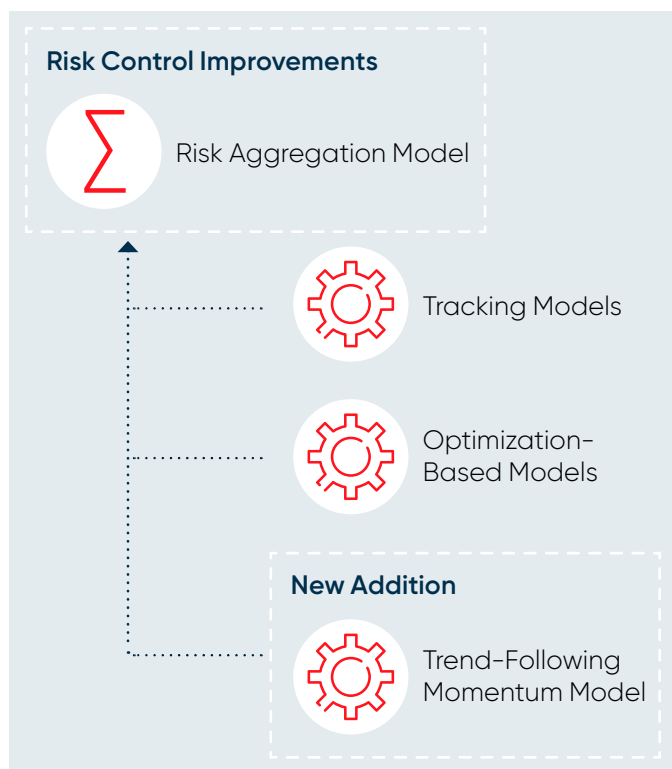
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### Changes to the NALT's strategy

Recently, a number of changes were introduced to the NALT's underlying quantitative strategy. Such changes stemmed from National Bank Investments' commitment to continuously improve the NALT's strategy.

### Impact of Changes to the NALT's Strategy



The first significant change that was made is the addition of a new model to the QI model roster. The new model falls within the category of trend-following strategies. Extensive testing carried out throughout the model's development lifecycle demonstrated that its addition to the roster is likely to improve the overall strategy.

This addition should lead to improved model risk diversification, as well as expected risk-return characteristics of the overall portfolio recommendations.

The second significant change introduced include a variety of minor adjustments to the risk aggregation model. These adjustments, such as increasing the internal minimum diversification constraints, were justified considering our commitment to continually monitor the Fund's behaviour since its inception. Because markets are defined by change and because real-life portfolios' behaviour cannot always be predicted, we believe that continuous readjustments to the strategy are necessary, so the Fund's performance remains consistent with the expected risk-return-decorrelation characteristics.

In addition to these changes, we have introduced further enhancements to the internal tools and processes pertaining to our execution and monitoring activities.

### Continuous Exploration

Since the Fund's inception in 2019, we have focused mostly on adjusting and refining the NALT's strategy, so it remains highly efficient. For the foreseeable future, we will continue to do so.

With a significant portion of our upcoming work favouring the exploration of new assets to add to the mix and the development, testing and assessing of new models, NALT's engine is just getting started.

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