About Evovest

Evovest automates investment decisions with a scientific approach. Machine learning allows us to identify the best potential investments by analyzing financial and macroeconomic information. Our approach stands out by integrating the best practices in portfolio management and artificial intelligence. Our commitment is to generate superior returns through an innovative approach at a competitive cost.

Q1 2022 Quarterly Review

The last quarter was another test for our investment process. We are always living through new events and the adaptation to those are of the utmost importance for any investors.

A key differentiator we bring is our capacity to adapt rapidly to ever-changing market conditions, bringing a unique returns profile as we do not exhibit a style drift for a long period. This is exactly what we experienced in January, where changes were occurring quickly. For a few weeks our process adapted and was well positioned for the rest of the quarter.

This makes us stand against other managers, where on average, the top performer on the Q1 2022 were different from Q4 2021. As we strive to continually add value independently of the market conditions, this last quarter proved to be a good indicator of our capacity to adapt.

Apart from our 3-year track record achieved in January, we have a scientific advancement we want to share with you. It is the application of weighted loss function to our investment problems, where we care more about the best and worst stock returns. More is described on page 2 of this newsletter.

On the corporate side, Evovest has officially began the process of becoming BCorp Certified (link) . B Lab is the non-profit network transforming the global economy to benefit all people, communities, and the planet. We are happy to pursue this initiative to make a difference going forward.

Within the same topic, we have submitted our UNPRI association membership. The signatory's commitment is as follows: "As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios." We want to continue to implement such initiatives in the coming quarters in line with the responsible investment policy that we have put in place.

Don't hesitate to contact us at info@evovest.com

Returns - Global Equity

The year 2022 started with high inflation, rising interest rates and an unthinkable human tragedy in Europe. In this context, uncertainty is higher, and investing is more complicated. Despite everything, our investment process was able to adapt, and the performance of the strategy compared to the benchmark index was positive for this quarter. The strategy's return for the quarter was -4.6% versus -6.5% for our benchmark excluding fees.

Jan. 31st 2019 - Mar. 31st 2021	Evovest	MSCI World EW Net
Annualized returns	12.9%	8.3%
Annualized volatility	14.0%	15.0%
Beta	0.85	N/A
Q1 2022 returns	-4.6%	-6.5%
Tracking error	4.7%	N/A

Warning: The returns presented in CAD include transaction costs but exclude management and operating fees. Past performance is not indicative of future results.

Weighted loss functions

At Evovest, we are always looking to improve the accuracy of our models' predictions aligned with our investment products.

We want to showcase something we have recently explored: weighting schemes in loss functions.

Weighted loss functions in machine learning optimizations usually stem from the idea of handling imbalanced, non-uniform data and improve learning on the low-density portion of the distribution without using under or oversampling. With a weighting scheme, models are tilted by over-penalizing certain prediction errors - distances between realized and predicted values - that may be of higher interest.

As shown in Figure 1, this idea can be applied in the context of investment returns while screening for equities to buy or sell in a portfolio as asset managers, like ourselves, are more interested in the tails of a distribution. The darker grey area is the focus of our work.

The Figure 2 represents two weight functions that are conditional on the distribution. The uniform function takes the same value independently if the observed data point is in the tails or not. On the opposite, the weighted function put more weights on the tails than on the middle of the distribution, thus putting more focus on those best and worst stock returns.

The difference in weights to evaluate the model based on the loss function is displayed in the Figure 3, the blue area portrays where we penalize more using a weighted loss function than the uniform and more classical approach.

We recommend reading the following to understand its possible potency in a regression setting: Steininger, M., Kobs, K., Davidson, P. et al. Density-based weighting for imbalanced regression. Mach Learn 110, 2187–2211 (2021). (link)

Figure 1 - Return distribution

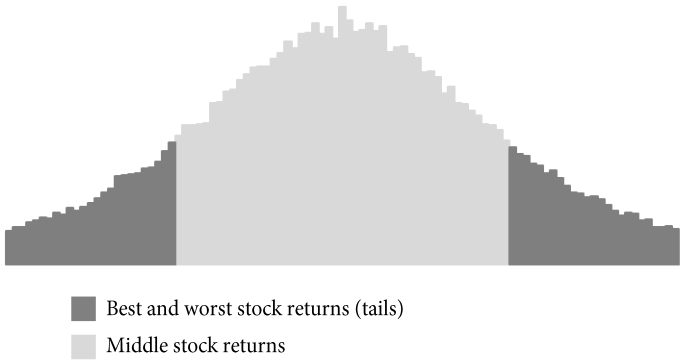


Figure 2 - Weight function conditional on the distribution

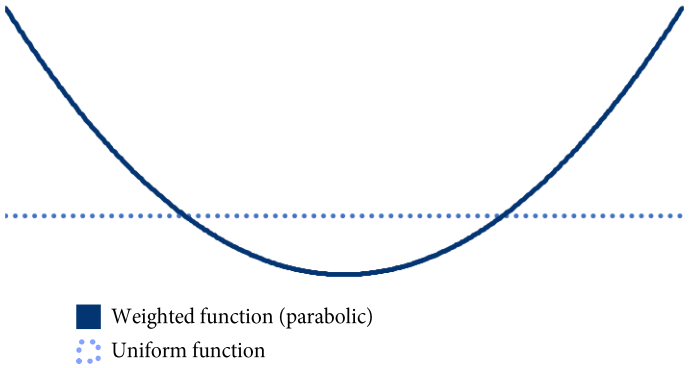


Figure 3 - Difference in weights to compute the loss

