About Evovest

Evovest automates stock market investment decision-making 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 best practices in portfolio management and artificial intelligence. Our commitment is to generate superior returns through an innovative approach at a competitive cost. We are a portfolio management company registered with the Autorité des marchés financiers (AMF) and the Ontario Securities Commission (OSC).

Q3 2020 Quarterly Review

Following the last quarter fast market recovery, we saw another strong quarter within equities market. We remain satisfied of our process, but with mixed results in our North American Market Neutral strategy, we are reflecting upon portfolio construction and risk diversification. The second page of this newsletter will elaborate on this topic with our thought around the exploration of our next evolutions.

One highlight of the quarter was the participation of Jérémie Desgagné-Bouchard to JuliaCon2020, you can find a link of his presentation about EvoTrees on the Youtube channel. EvoTrees is a Julia implementation of boosted trees. His work to this open source library is aligned with our desire to contribute to the machine-learning community.

At the moment, our work is focusing on how to integrate ESG factors within our investment process. Our goal is to add to our investment strategies an ESG conscious construction and help clients achieve their goals on that front.

As some may have heard, we are working toward an ETF launch in the upcoming months. We are currently conducting a market study to better understand the market needs . We would like to hear what you have to say, you can take our quick ETF market study survey here.

For more information, do not hesitate to contact us at info@evovest.com

Global Equity

Q3 2020 was mostly in-line with our benchmark. Creating a small amount of value in the strategy is the key for our long-term goals. As we continue outperforming for the year, we can appreciate the diversification aspect of the strategy construction.

Jan 31st 2019 - Sep 30th 2020	Evovest	MSCI World EW Net
Annualized Returns	9.7%	4.7%
Annualized Volatility	15.9%	18.4%
Beta	0.81	N/A
Q3 2020 returns	4.6%	4.2%

North American Equity

This quarter was difficult for the strategy, having greatly outperformed in June, most of the value created was lost during Q3 2020. Even we still ahead of our benchmark for the year by +1.2%, we think we could use this example and work upon of process to evolve in making better product.

Nov 1st 2018 - Sep 30th 2020	Evovest	50% S&PTSX EW TR 50% S&P500 EW TR CAD
Annualized Returns	10.3%	6.6%
Annualized Volatility	22.3%	24.3%
Beta	0.87	N/A
Q3 2020 returns	0.2%	5.1%

North American Market Neutral Equity

As per the long strategy with the same geographic exposure, this quarter was difficult. It puts the strategy slightly up at +1.4% since inception and ahead of its peers at –1.1% for the same time period. For 2020, we are now down -2.9% and trailing our peers by -3.3%.

Nov 1st 2018 - Sep 30th 2020	Evovest
Annualized Returns	1.4%
Annualized Volatility	9.1%
Beta	0.08
Q3 2020 returns	-6.8%

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

Comments on Realized Volatility - Q3 2020

The results of recent months have raised questions about the volatility of the North American Market Neutral strategy. An unusual return of 9.6% in June gave way to significant drops between July and September, which wiped out this gain. We therefore sought to better understand the causes of this volatility and to identify potential corrective measures.

As with all our strategies, the North American Market Neutral strategy is designed to present a controlled risk profile, in particular through the number of securities invested, sectoral and geographic diversification, as well as a series of exposure constraints to various risk factors. These risk control measures are validated by a simulation of the strategy over a period of at least 5 years.

Over the July to September period, most of the negative returns came from the energy sector as well as Canada. It should be noted that the strategy fixes the concentration in Canadian securities at 50% and that sector deviations of 10% are allowed. There was no particular day or event involved, nor an individual stock whose contribution was decisive. In addition, we were able to rule out the hypothesis of an excessive concentration on some of the key investment factors of our models.

If we limit to the short horizon of 4 months since the implementation of the weekly rebalancing in June 2020, the decline of nearly 10% appears to be an abnormal event. The maximum cumulative loss of -10.3% observed in the simulation over 5 years (2015 to 2019) signals, however, that the strategy is exposed to significant setbacks. Indeed, our simulations show that a cumulative loss of 10% or more should be observed almost every four years.

In light of these observations, we believe that the North American Market Neutral strategy continues to evolve within its planned envelope, but that the level of risk inherent in its investment policy may be excessive. We therefore set out to examine options to reduce this risk.

One possible solution can be found in controlling the various risk exposures. There is a trade-off between expected return and volatility. Right now, we can establish tighter risk controls on sector exposures. This effect can be observed by comparing the black and red curve, with more constraints, which represent the expected cumulative loss distributions.

Another angle of approach involves greater geographic diversification. Our Global Market Neutral Strategy is made up of 6 distinct geographic modules. The machine learning process used treats each geographic area separately. This element allows for diversification through different levels of importance on the investment factors considered as well as through the number of securities in portfolios. This effect can be observed by comparing the black curve, the North American strategy, and blue, the Global Market Neutral Strategy.

A smaller, but similar effect can be seen with the increase in the number of stocks. A portfolio containing 25 stocks by geography, in black, compared to a portfolio containing 50 stocks by geography in green.

In conclusion, we remain confident in our investment process. Our Global Equity Strategy is behaving as expected with an annualized alpha achieved of 5.0% since the start in 2019 and an alpha of + 0.4% was achieved during the last quarter, demonstrating the benefits of geographic diversification.

Also, this learning is already part of the development of our future product offering. The Global Market Neutral strategy is based on 6 universes, which brings major benefits to portfolio diversification. For illustration, the cumulative risk of loss of more than 10% goes from 25% for the North American strategy to 0.6% for the global strategy. Moreover, the simulation for the third quarter of 2020 shows a return of + 1.3% which show the benefits of elements discussed above.

Expected Drawdown - Distribution

