Performance Overview

Passive Strategy, Active Strategy

PASSIVE INVESTMENT STRATEGY

PERFORMANCE SUMMARY

In line with the client's investment objectives, the team at ACE Capital allocated the $7.72 million in registered and non-registered accounts to our tailored passive investment portfolio. The strategy emphasized diversification across asset classes and sectors, committing 85% towards equities for growth potential and 15% to fixed income and cash securities for stability and liquidity. This allocation was carefully optimized to target an expected annualized return of 8.27% and 10.50% in volatility, consistent with the client's' medium-risk tolerance and long-term financial goals.

Performance Comparison				
Annualized	Return	Standard Deviation	Sharpe Ratio	ESG Rating
Expected	8.27%	10.50%	0.51	7.12
Actual	17.81%	9.58%	1.54	7.02

Since its inception on March 1st of this year, the passive portfolio has delivered outstanding results, surpassing expected performance metrics. The annualized rate of return significantly exceeded the target of 8.27%, driven by strong performance in global and Canadian equity markets. Moreover, the portfolio demonstrated effective risk management and diversification by achieving lower-than expected volatility at 9.58%, bringing our portfolio's Sharpe Ratio to 1.54, reflecting the efficiency of the portfolio's construction in maximizing risk-adjusted returns. While the actual MSCI ESG rating of 7.02 fell slightly short of the anticipated 7.12, it remained above the minimum threshold of 7, staying in line with the sustainability objective.

Performance Breakdown (Since Inception March 1st 2024)								
	XWD.TO	XST.TO	ZCLN.TO	TBILL (1yr)	5yr BoC Bonds	10yr BoC Bonds	CASH	Portfolio
Weight	32.20%	40.40%	9.90%	5.30%	5.30%	5.30%	1.80%	100%
Period Return	19.81%	19.23%	-10.87%	3.95%	4.22%	3.22%	3.39%	**13.74%**
Avg. Monthly Return	1.92%	1.85%	-0.71%	0.41%	0.44%	0.33%	0.36%	**1.36%**
Avg. Monthly Volatility	2.27%	3.07%	7.34%	0.61%	0.38%	0.28%	0.05%	**2.77%**
Annualized Return	25.64%	24.88%	-13.53%	5.02%	5.36%	4.08%	4.30%	**17.81%**
Annualized Volatility	7.87%	10.64%	25.41%	2.11%	1.31%	0.98%	0.17%	**9.58%**
MSCI ESG Scores:								
As of March 2024	6.89	7.22	7.3	7.14	7.14	7.14	7	**7.12**
As of December 2024	6.94	7.04	7.3	6.86	6.86	6.86	7	**7.02**

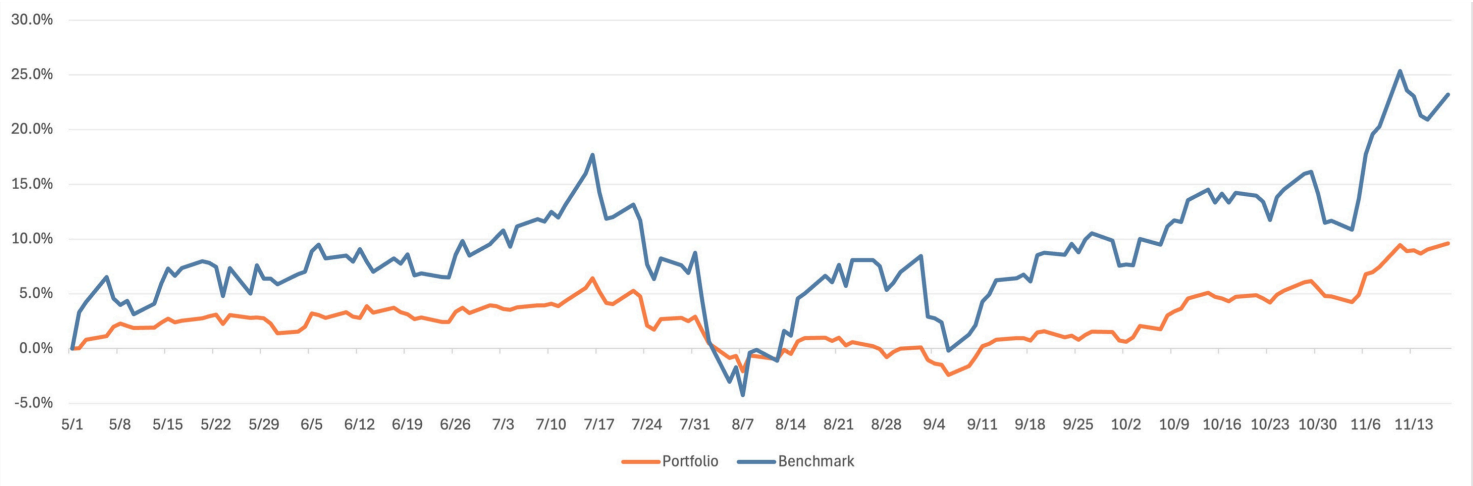
A detailed breakdown of these results highlights the strengths and challenges of the portfolio's composition, providing valuable insights as we prepare to refine and rebalance the strategy for the year ahead. XWD and XST emerged as key contributors, achieving annualized returns of 25.64% and 24.88% respectively. These returns were mostly driven by global market growth, and the defensive stability of consumer staples, keeping volatility manageable in an otherwise turbulent market. In contrast, ZCLN underperformed with a -13.53% annualized return, reflecting short-term headwinds in the renewable energy sector, amplified by market uncertainty following the recent US election, with the new administration expected to challenge clean energy initiatives. However. this asset remains vital for long-term sustainability objectives. Fixed income assets, including Government of Canada bonds and T-bills, delivered stable returns, strengthening the portfolio's risk profile, while the 1.8% cash position provided liquidity with minimal volatility to mitigate liquidity risks. Despite minor downgrades in ESG scores, the final rating of 7.02 reflects ongoing adherence to the client's sustainable investment goals.

ACTIVE INVESTMENT STRATEGY

PERFORMANCE SUMMARY

ACE Capital's active investment strategy was designed with the goal of generating consistent and stable alpha by outperforming the VanEck Social Sentiment benchmark (BUZZ) through a systematic approach to sentiment-driven investing. By capitalizing on early insights from Reddit posts with slower information diffusion, the strategy aimed to identify mispriced assets before market sentiment was fully reflected in their prices. By avoiding high-risk "meme" stocks, such as GameStop and AMC, our strategy sought to balance growth opportunities with disciplined risk management.

Peformance Metrics Since Inception							
Annualized	Return	Standard Deviation	Sharpe Ratio	Beta	Alpha	Tracking Error	Information Ratio
Portfolio	17.43%	10.18%	1.32	0.33	22.56%	5.72%	-4.66
Benchmark	44.09%	25.50%	1.57	0.57			



Since its inception, the strategy has delivered a strong annualized return of 17.43%, but unfortunately underperformed the benchmark's staggering return of 44.09%, resulting in an alpha of -22.56% and information ratio of -4.66. Despite this, the portfolio demonstrated strong stability, with a standard deviation of 10.18%, less than half that of the benchmark with 25.50%, and a beta of 0.33, indicating minimal market exposure. The Sharpe Ratio of 1.32 reflects favorable risk-adjusted returns, though slightly below the benchmark's 1.57.

ADDRESSING THE STRATEGY'S UNDERPERFORMANCE

While the active strategy successfully met its objective of providing stable, sentiment-driven returns with low volatility and minimal market exposure, it failed to meet its primary objective of generating positive alpha. The team at ACE Capital has identified two key limitations that we believe led to this underperformance:

1. **Benchmark limitations:** While the benchmark reflects market performance, it overemphasizes sectors driven by short-term trends, such as the GameStop resurgence seen this year. These stocks are subject to extreme price swings and demand high-frequency trading tactics to navigate their volatility – an approach that is not aligned with our strategic objectives. The benchmark's outperformance in this period can, to some extent, be attributed to the resurgence of GameStop, a trend we intentionally excluded from our strategy. Our focus remains on delivering stable and consistent alpha through systematic, sentiment-driven investing, rather than chasing speculative opportunities that offer fleeting gains at significantly higher risk. We believe this disciplined approach positions us to generate more reliable alpha over time, even if it means foregoing some short-term upside.

Moreover, this divergence between the benchmark's speculative nature and our more disciplined, risk-managed approach raises the question of whether it is the msot appropriate benchmark for evaluating our performance. While the benchmark aligns with our overarching theme of captializing on social media-driven investor sentiment, its reliance on volatile meme stocks differs from our objective of generating consistent and sustainable alpha.

2. **Low Trading Frequency:** The strategy exhibited fewer buy signals than initially anticipated, which we attribute to constraints with our current implementation of sentiment analysis model. While the NLTK VADER sentiment analysis model (Hutto and Gilbert, 2014) captures general sentiment intensity, its simplicity may have limited our ability to identify more nuanced trading opportunities, particularly posts with complex language or mixed sentiment. As a result, the lower frequency of trades reduced the portfolio's ability to capitalize on additional market opportunities.

Furthermore, as this strategy is still in its early stages of implementation, trading volumes (the size of individual trades in this context) were lower while we fine-tuned our processes and ensured robust risk management. This means large positions of cash were held, again limiting our portfolio's ability to take full advantage of available market opportunities.

Moving forward, we recognize the need to scale up the size of our trades and refine our sentiment analysis capabilities, in order to better seize emerging market opportunities, enhance portfolio performance, and ultimately meet our investment objectives.

2025 Outlook

Lessons Learnt, Next Steps

PASSIVE PORTFOLIO NEXT STEPS

The strong results achieved by the passive allocation strategy demonstrate that we are well-aligned with the client's investment objectives of steady capital appreciation, income generation, and sustainable investing. While the portfolio has delivered robust returns with manegeable volatility and maintained its ESG focus, we remain committed to refining our approach and seeking opportunities for improvement. By making thoughtful adjustments, we aim to enhance diversification, manage risk, and further align with the Courchevel family's long term financial and sustainability goals:

- **Diversify Beyond Canadian Consumer Staples:** Reduce the portfolio's reliance on Canadian staples in XST.TO, by exploring opportunities in U.S. staple goods ETFs (potentially Vanguard's Consumer Staples ETF - VDC) to further diversify geographically and mitigate contentration risk within XST.TO.
- **Enhance our ESG Score:** Incorporating green bonds to expand our fixed income allocation and raise our ESG ranking, and invest in socially responsible ETFs (e.g. XCSR, XUSR) to better meet the "social" and "governance" targets in ESG.

ACTIVE PORTFOLIO NEXT STEPS

The active portfolio has demonstrated its potential to deliver stable, sentiment-driven returns with low volatility, but underperformance relative to the benchmark highlights areas for improvement. By addressing the limitations of our chosen benchmark and the low trading frequency and volume, we can refine the strategy to better meet our objective of generating alpha:

- **Refine Sentiment Score:** Develop a proprietary sentiment analysis model trained on Reddit data (e.g. GoEmotions dataset), and leverage more advanced machine learning techniques, such as BERT, which stands for Bidirectional Encoder Representations from Transformers (Devlin et al, 2019), which better captures nuanced, context-dependent sentiment, including sarcasm and ambiguity. This advanced approach would be more task-specific, enhancing our ability to detect sentiment, and ultimately, increase the number of viable buy signals.
- **Expand Media Coverage:** Broaden the scope of sentiment analysis to include platforms such as Twitter, Stocktwits, and the newer Threads, providing additional datasources to identify mispriced assets.
- **Improve Macro Sensitivity:** Enhance the model to account for macroeconomic conditions, such as inflation, interest rate movements, and geopolitical risks, which can influence retail sentiment and asset performance.
- **Revise Benchmark:** Replace the current benchmark with one better aligned to the strategy's more conservative and disciplined approach. A 70-30 blend of BUZZ and SPY could better reflect the focus on social media sentiment, while accounting for the broader market exposure of S&P 500 stocks, which dominate our investable universe.
- **Increase Position Sizes:** With growing confidence in the strategy after this first trading period, we look forward to scaling up individual trade sizes to increase the impact of successful trades on overall portfolio returns.