Quarterly Newsletter

Q4 - 2015

Geneviève Blouin, CFA, CMT
Keith Porter, ASIP
300 St-Sacrement
Suite 423
Montréal, Québec
H2Y 1X4
www.altervest.ca
(514) 448-4029

Executive Summary

What's new?

Our new product Smart Volatility is now available as a fund and is eligible for registered accounts. Don't hesitate to contact us to make your annual contribution for 2016. The product targets long term annual returns of 15% on average and is focused on capital of preservation. Interestingly, the more volatility rises, the better the product tends to perform which seems well suited for 2016.

You can also read about our new product in an article by the magazine, *Finance et Investissement* in our private wealth section. **Page 3**

Emerging Markets

The year 2015 ended without the usual « Santa Claus rally » for emerging markets. As such our year end outlook for the health of emerging market economies remains pessimistic for 2016.

In China, the stock markets dropped by close to 10% for the first week of 2016, erasing almost all of the gains of 2015. However, the recent changes in Argentina and Venezuela seem to bring a few positive notes to start the new year.

For a complete review of Emerging Markets, refer to **page 4**.

S&P Enhanced

Our S&P Enhanced product seeks to outperform the S&P Total Return index by 300 basis points annually.

Since its inception in February 2015 up to the end of December, it generated a return of 9.29% while the S&P Total Return index climbed only 4.52% over the same period. During this period S&P Enhanced outperformed the S&P Total Return by 4.77%, well above the target set. In October, the S&P Total Return had striking performance of 8.44%. S&P Enhanced none the less managed to outperform the index by 63 basis points. November saw the strategy outperform by 11 basis points while December was a month of underperformance.

Altervest Smart Volatility

In 2015, had it been launched on Jan 1st, *Altervest Smart Volatility* would have generated a return of 8.06% while the S&P Total Return returned only 1.38% (outperformance of 6.67%).

The volatility strategy was launched in managed accounts in June 2015. It has continued to prove itself as a great tool for diversification by maintaining its negative correlation with the stock market. Between June and December 2015 it returned 2.83% while the S&P Total Return index lost more than 1.79% (outperforming by 4.61%!). For the same period, our benchmark, *Eurekahedge Relative Value Volatility*, returned 1.24% leaving Altervest ahead by 159 basis points.

We believe that the slowdown in global growth, the anxiety about the health of the Chinese and global economy as well as the drop in prices of basic materials will contribute to high levels of volatility in the equity markets for 2016.

Such an environment should be favorable as the higher volatility rises the more our fund tends to perform given its positive correlation with the volatility index (VIX).

So if you are concerned about market volatility but are not comfortable sitting on the sidelines in cash, Altervest Smart Volatility may be the solution!

Finance et Investissement Article

Altervest launches a fund in the realm of volatility.

Published 06.01.2016 - 14:39 - Richard Cloutier

Altervest, a Montreal based firm specializing in alternative investments, is launching a fund called Altervest Smart Volatility.

The firm is launching a fund of which the investment strategy is based on volatility, « an asset class unexploited by traditional asset managers », according to Geneviève Blouin, founder and President of Altervest.

The fund Altervest Smart Volatility (FundServ code MAJ 500), has been available since January 1st 2016 to accredited investors. It currently can only be purchased by selected brokers. The fund is designed to perform well in periods of crisis, the targeted annual return is 15% over the long term (5+ years) and aims to have a max drawdown of 7%.

Specializing in the niche of volatility, Geneviève Blouin believes that alternative investments can offer excellent solutions for portfolio diversification. The addition of the Altervest Smart Volatility fund in a traditional portfolio composed of stocks and bonds should reduce the portfolio's volatility, all while increasing its return.

Understanding Volatility

If the strategies based on volatility are so scarcely known in portfolio management, it is because the majority of products that have been launched are poorly constructed, says Geneviève Blouin. «Certain exchange traded funds (ETF) based on volatility have lost more than 99% of their value since their inception», she puts forward. According to Geneviève Blouin, the majority of ETFs based on volatility are suitable for speculators or investors looking for short term portfolio protection. The prospectuses of these products clearly indicate that their estimated long term performance is negative, signifying a product that if held for too long is highly likely to incur losses.

« It's important to know that professionals hold these products in their portfolios on average for 5 to 10 days », Ms. Blouin specifies.

Volatility Indices are often called « fear indicators », she says. The most well-known of these indices is the VIX. It consists of a volatility indicator set daily by the Chicago Board Options Exchange. It is calculated according to the average volatility of call & put options on the S&P 500. The VIX is a kind of oscillator which can in theory vary between 0 and 100. The worse the underlying equity market performs, the higher fear climbs and the closer the volatility index approaches to 100, as well as vice-versa, explains Ms. Blouin. « In 2008, the highest value reached by the VIX was 89, » she cites as an example. « From this dynamic results a negative correlation between the two assets classes and this is what makes it such an exceptional tool for diversification. »

To make money from volatility, it must be actively managed according to market conditions: either by buying it, short selling or doing nothing if the conditions are not favorable, she adds.

Underlining that the expertise required for this type of management « is very rare », Geneviève Blouin adds that most experts in the field « capture the risk premium on volatility through short selling ».

According to the President of Altervest, only a handful of firms specializing in the area manage to generate profits by buying volatility. « This signifies that the majority of volatility products that generate positive long term returns do not have positive performance when volatility rises significantly and equity markets drop», she concludes.

Emerging Markets commentary - by Keith Porter

2015 ended without even a “Santa Claus” rally. Markets were entirely focused on the bad news, of which there appeared to be an excess.

In anticipation of the conversion of the fund to the new strategy, we had reduced exposure across the board, so we were sitting on the sidelines as the markets sank, and we are certainly NOT optimistic about the outlook for Emerging Markets in early 2016; Brazil has lost its Finance Minister and is directionless, South Africa seems intent on shooting itself in the foot, whilst reforms have slowed in most other countries.

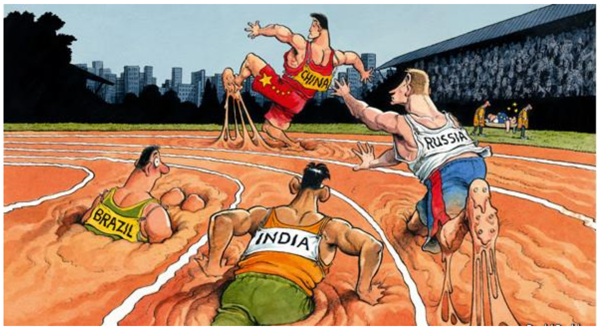
On the Asian continent, the year began very painfully in China after the stock markets tumbled by 7% for the first session of 2016. Two major events were the cause of these disturbances: the depreciation of the Yuan and expectations for the imminent removal of “the stock market fuse” which had been forecast to occur in early 2016.

What is this fuse? The tool was put in place by regulators after the mini-crash of the summer to prevent extreme moves in the equity markets. The fuse puts transactions on hold for 15 minutes when the CSI300 moves 5% either way in a daily trading session. Transactions are frozen for the entire session once the index moves over 7%. This mechanism was set to expire on January 8th, but the anticipation of its imminent removal was one of the main explanations for the plunge of the Chinese markets. The panic was so great that the financial authorities used the short circuit to suspended trading for the first time. Following the re-opening of the markets after the short-circuit, the sell orders increased for 15 minutes during which the indices fell a further 5%. This was too much for regulators who decided to put an early end to the day’s trading. The after math of the first session was not encouraging: the CSI300 declined by 6.98% and the Shanghai Composite posted losses of 6.85%.

In an effort to stem the bleeding, the Chinese authorities announced an injection of liquidity and the threat of additional restrictions on the sale of securities but with mitigated success. After this, the CSI300 struggled to a gain of 0.28% while the Shanghai composite shed another 0.26%.

Although investors thought that calm had returned, the new devaluations of the Yuan by the Chinese Central Bank threw more fuel on the fire. Thus, for the second time in less than a week, the short circuits were activated after the Chinese markets again fell by 7%.

After these twists, China announced the suspension of the short circuit mechanism on the stock markets due to the counterproductive effects to start the year.

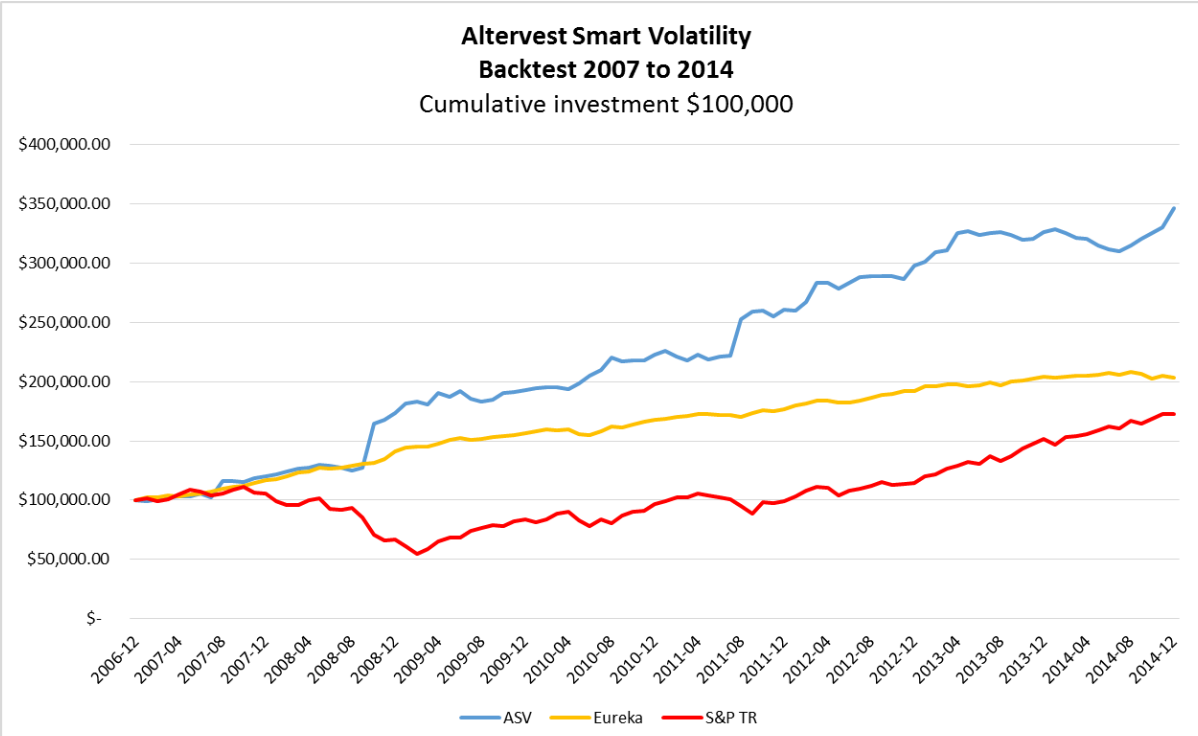


On a more positive note, Argentina has just elected a more conservative government, one which will hopefully implement 4 years of more reasonable economic policy. Other good news, Venezuela has started to move away from the Chavez era…

FACTSHEET - ALTERVEST Smart Volatility

Strategy Description

Altervest Smart Volatility is a quantitative absolute return investment strategy that generates alpha through volatility movements. The product's main objective is long-term capital appreciation with a focus on capital preservation. In order to minimize the frequency and the amplitude of drawdowns, the strategy mainly takes hedged positions through volatility spreads. When the risk reward dynamic is extremely advantageous it also combines uncorrelated strategies that have hedged market exposure. Our approach is designed to produce positive returns during quiet as well as turbulent market conditions. The strategy tends to deliver strong positive performance in times of crisis when volatility rises. Its negative correlation to the S&P Total return index makes it a great investment diversification tool.



- All statistics and data are back tested using monthly data and returns are reported net of 2/20 fees with a hurdle of LIBOR + 3%. Reported in US dollars.

Annual Outperformance vs Eureka - Backtest			
	Smart	Eureka	Outperformance
2007	20.40%	17.01%	3.39%
2008	44.02%	20.56%	23.46%
2009	11.25%	10.97%	0.29%
2010	15.59%	6.98%	8.61%
2011	16.81%	5.46%	11.35%
2012	14.24%	8.81%	5.44%
2013	9.59%	6.04%	3.55%
2014	6.12%	-0.36%	6.49%
Average	**17.25%**	**9.43%**	**7.82%**

Key Statistics 2007-2014 - Backtest		
	Smart	Eureka**
Annualised return	16.79%	9.26%
Annualised volatility	13.41%	3.77%
Downside volatility	2.03%	1.63%
Sortino Ratio*	7.52	4.57
Correlation with S&P TR	-0.403	0.104

* Sortino Ratio used MAR = 2% (average inflation)

**CBOE Eurekahedge Relative Value Volatility Hedge Fund Index

Key strengths

- Performs well in risk-on or risk-off environment
- Tends to perform better when volatility is high
- Great diversification tool focused on capital preservation

Altervest Smart Volatility - Performance 2015													
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
Altervest Smart Volatility	-2.76%	4.01%	-0.29%	1.93%	2.22%	1.52%	-3.52%	9.09%	1.40%	1.49%	-2.66%	-3.94%	**8.06%**
Eureka	-0.20%	1.86%	0.60%	1.06%	0.57%	-0.38%	1.40%	-2.19%	-0.21%	2.38%	0.02%	-0.53%	**4.40%**
Outperformance	-2.56%	2.16%	-0.89%	0.87%	1.65%	1.90%	-4.92%	11.28%	1.61%	-0.89%	-2.67%	-3.41%	**3.66%**

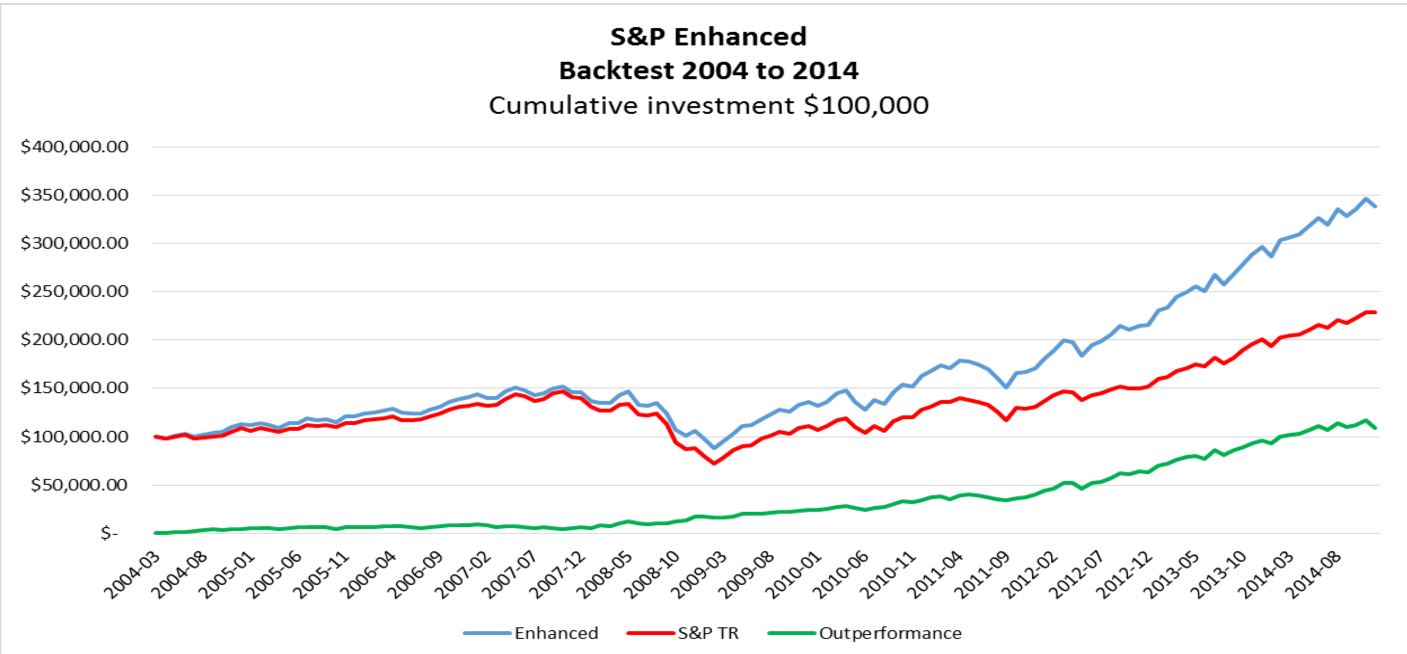
**The returns from January to May are backtested.*

Strategy Launched June 2015 for managed accounts. Available in fund as of January 2016.
FundServ Code : MAJ500.

FACTSHEET - ALTERVEST S&P ENHANCED

Strategy Description

Altervest S&P Enhanced is a quantitative product that is designed to consistently outperform the S&P 500 with small, infrequent and recoverable drawdowns relative to the index. The product's goal is to outperform the S&P 500 Total Return by an average of 300 basis points annually. The strategy seeks to capture the volatility risk premium on the S&P 500 index through a mirror allocation in volatility only when the risk/return profile is advantageous. The strategy dynamically adjusts the size of its volatility position based on the level and term structure of volatility, and when warranted, can be long volatility. Under certain conditions, the strategy engages in a covered call writing process for part of the position. It can also easily be converted into a portable alpha strategy.



- All statistics and data are back tested using monthly data and are reported net of 0.5% annual management fees. Reported in US dollars.

Annual Outperformance vs S&P TR - Backtest

	S&P Enhanced	S&P TR	Outperformance
2004*	17.86%	12.05%	5.82%
2005	6.34%	4.91%	1.43%
2006	16.86%	15.79%	1.06%
2007	3.54%	5.49%	-1.96%
2008	-27.54%	-37.00%	9.46%
2009	28.30%	26.46%	1.83%
2010	19.92%	15.06%	4.85%
2011	4.95%	2.11%	2.84%
2012	26.10%	16.00%	10.10%
2013	37.84%	32.39%	5.45%
2014	13.83%	13.69%	0.14%
Average	**13.45%**	**9.72%**	**3.73%**

*The returns for 2004 are annualized. They have been calculated from April to December.

Key Statistics 2004-2014 - Backtest

	S&P Enhanced	S&P TR**
Annualised return	12.09%	8.06%
Annualised volatility	14.42%	14.23%
Downside volatility	3.71%	3.86%
Sortino Ratio*	3.09	2.00
Information Ratio	1.18	
Tracking error	0.28%	
Correlation	0.976	

* Sortino Ratio used MAR = 2% (average inflation)

**S&P Total Return

S&P Enhanced - Performance 2015

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
S&P Enhanced	-	7.24%	-1.05%	2.00%	2.00%	-1.95%	2.31%	-6.11%	-1.66%	9.07%	0.40%	-2.40%	9.29%
S&P TR	-	5.75%	-1.58%	0.96%	1.29%	-1.94%	2.10%	-6.03%	-2.47%	8.44%	0.30%	-1.58%	4.52%
Outperformance	-	1.50%	0.53%	1.04%	0.71%	-0.01%	0.21%	-0.07%	0.82%	0.63%	0.11%	-0.82%	4.77%

The S&P 500 enhanced strategy has a live track record since February 2015 and has a hard close of 2 Billion USD$

Disclaimer

The information contained in this email communication is confidential and is intended only for the recipients named above and any others who have been specifically authorized to receive it. Any unauthorized dissemination, copying or use of the contents of this email is strictly prohibited and may be unlawful. If you received this email in error, please delete it and any attachments from your system and notify the sender immediately.

This communication is for informational purposes only and does not constitute a solicitation or offer to buy or sell securities. Any such offer will be made only to qualified investors by means of a confidential private offering memorandum, and only in jurisdictions where permitted by law. Past performance is not necessarily indicative of future results.