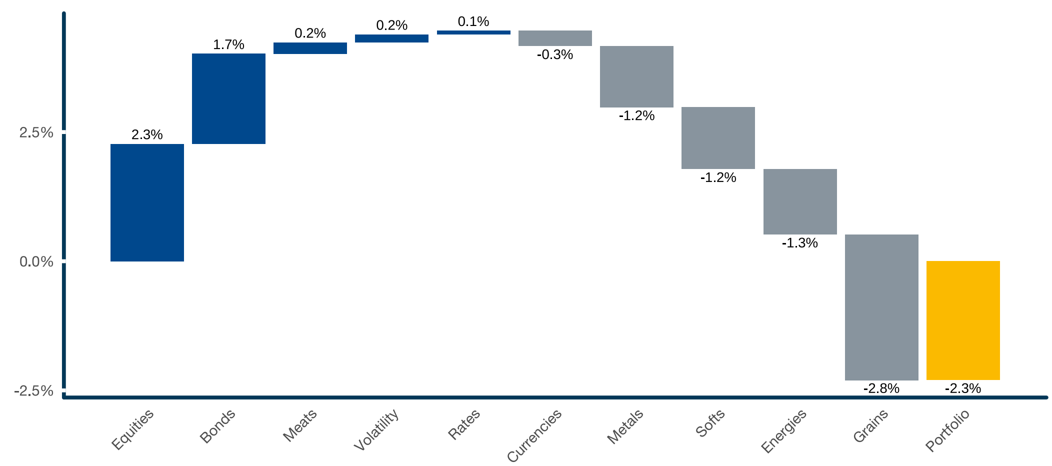
PERFORMANCE REVIEW

The ReSolve Evolution Fund experienced a -3.1% net loss in the second quarter of 2020. The strategy caught tailwinds in financials with strong gains from long exposures to equity and bond markets. However, the gains were more than offset by huge reversals in softs, energies and grains.

Evolution Fund Return Attribution, Q2 2019



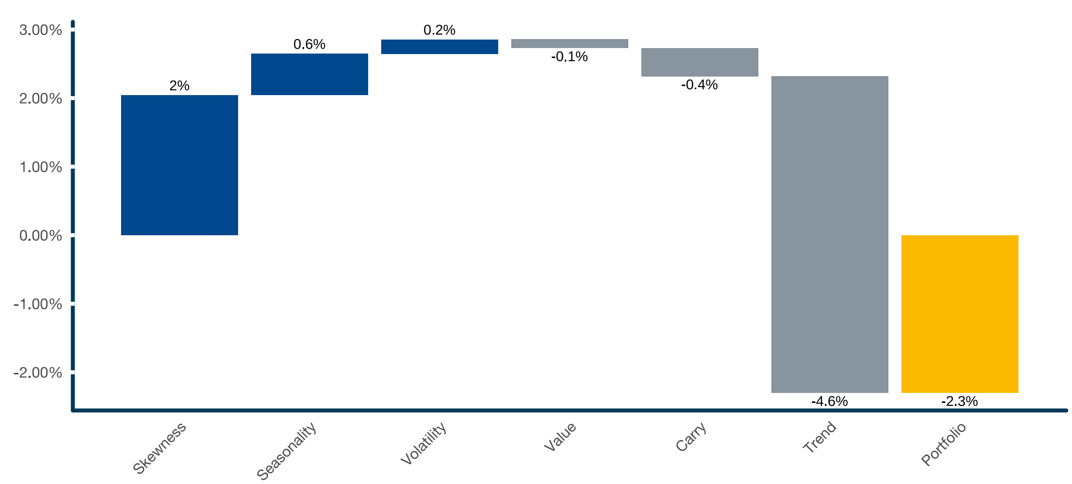
Source: ReSolve Asset Management. Values are estimates net of fees and expenses.

The energy complex experienced a blistering upside reversal leading to 50% - 90% gains in many products. The rally occurred in the face of strong negative trend signals and despite historically large negative carry costs. Short positions cost the fund 1.7% in losses.

The grains (except for soybeans) were generally well behaved on the short side for most of Q2 but also experienced a sharp reversal in the last days of June, with a huge expansion in volatility, which caught the fund offside.

Strategy sleeves were mixed in the quarter with Skewness and Seasonality showing leadership. Trend was the primary laggard and by far the largest contributor to overall losses.

Evolution Fund Return Attribution by Strategy Sleeve, Q2 2020



Source: ReSolve Asset Management. Values are estimates net of fees and expenses.

Examining the trajectory of strategy sleeves over the course of 2020 we see that some strategies have fully recovered and gone on to deliver strong gains while others still show losses.

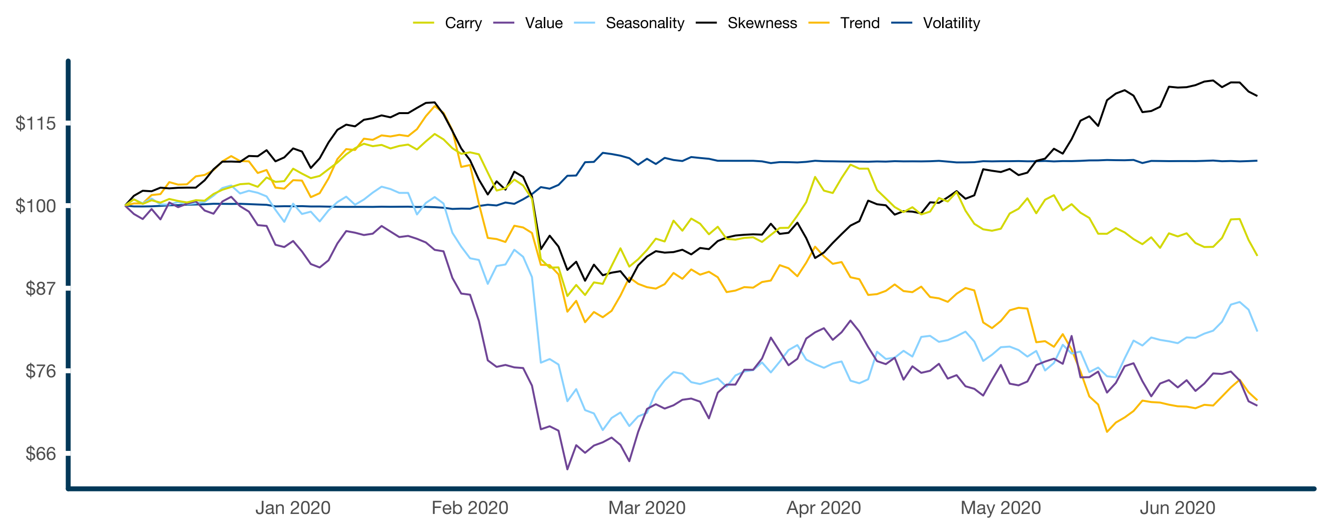
The Skewness strategy has demonstrated particular agility in navigating the 2020 market environment, with large gains year-to-date. The Carry strategy sleeve has also held in well though it dropped off somewhat in Q2. Seasonality suffered in the crash but has been climbing steadily back while the Value strategy has been bouncing along the bottom. However, after a brief bounce in April the Trend strategy moved lower in May and June and is currently near the trough of its current drawdown.

As a reminder, CBOE guidance issued in early March indicated that if markets did close, there was extreme risk that VIX contracts might be marked down very materially because they presumably wouldn't re-open exchanges until volatility had contracted to a meaningful degree.
In the spirit of discretion is the better part of valor, the Portfolio Managers decided that the most prudent action when the bullets were flying was to back away from the Volatility strategy until the very real risk of market closures credibly diminished. Having missed the primary impulse of volatility, and related profits, Portfolio Managers agreed that it was most sensible to wait for a more reasonable entry point for the Volatility strategy at lower VIX levels.

That said, it's worth noting that the Volatility strategy has performed as expected this year, with positive returns during the crisis and no material give-back on the subsequent contraction in volatility.

In short, while returns have struggled so far this year, the Evolution strategy is doing what the Portfolio Managers would expect considering the performance of the different sleeves and current market conditions.

Evolution Fund Strategy Sleeve Cumulative Returns, January – June 2020 SIMULATED RESULTS



Source: ReSolve Asset Management. SIMULATED RESULTS. For illustrative purposes only.

Though it has been a difficult period for the Evolution Program, as we look across the landscape, systematic strategies, alternative risk premia and multi-alternative managers have been faring on average – adjusting for volatility – significantly worse. While this may sound trite and not necessarily provide much comfort, it is useful to remember the role that the strategy plays in your portfolio. Evolution is designed to be fundamentally different from the rest of your portfolio – a good portion of which is likely made up of equities, bonds, real estate – by investing across a wide array of global markets using systematic edges.

The scale and scope of the hardships in the wake of the ongoing global pandemic have no precedent in living memory[1], leading governments

[1] https://www.worldbank.org/en/news/press-release/2020/06/08/covid-19-to-plunge-global-economy-into-worst-recession-since-world-war-ii

to deploy vast and unparalleled[2] amounts of fiscal firepower to rescue their economies. Central banks, which have been operating under the whatever it takes mantra for over a decade (since the Great Financial Crisis), doubled-down on their efforts and have been flirting with increasingly unorthodox tools. The US Federal Reserve has joined the ECB and Bank of Japan in buying corporate bonds in the secondary market through a special purpose vehicle – essentially circumventing the law in support of asset markets.

These measures have temporarily distorted price discovery in markets and some signaling mechanisms. The question we repeatedly ask ourselves is: how long can this last? While we are confident this cannot continue indefinitely – and it is only a matter of time before the current paradigm shifts – our job is to adapt to circumstances and deliver on our commitment to our investors.

THE NEXT STAGE IN OUR EVOLUTION

Looking forward, the research team has been working on a skunk-works project for the past year that we are very excited to share with you over the next few weeks.

In short, we have built a predictive models framework to discover the true structure of predictive relationships between the characteristics that we use to forecast returns (i.e. carry, trend, skew, etc.) and forward returns on each underlying market.

This involved a comprehensive re-think of the fundamental principles that inform our investment strategies. We also implemented a complete overhaul of the experimental design of our process to discover and evaluate investment edges.

Our new research infrastructure makes use of best practices in contemporary data science and machine learning to map the connection between in-sample relationships and out-of-sample performance expectations. While this is not in itself particularly novel, our core innovations pertain to how we address the tradeoff between a desire to map relationships as precisely as possible while minimizing the potential for over-fitting.

The surprising reality is that, while a robust analysis of relationships between trend, carry, skewness, seasonality and other signals and forward returns do reveal a traditional relationship structure for certain markets, the empirical relationships are much more complex and often counter-intuitive for many other markets. Armed with a truly robust model for these relationships, unique to each feature and market, we have demonstrated the potential to produce much more stable performance over the past three decades. Even better, these relationships show no evidence of material decay in the recent period, which has been extremely challenging for most traditional systematic edges.

Many investment strategies rely on finding signals within enormous amounts of noisy data. The hard reality is that many of those signals are nothing more than illusions. Thus, our focus has been on finding ways to separate reality from illusion.

Our team will be reaching out with more information on these innovations in the next few weeks. In the meantime, please do not hesitate to get in touch with any comments or questions.

Thank you very much for your commitment to the Evolution strategy and we look forward to continuing to deliver on our vision of continuous innovation toward the best possible performance experience.

2 https://blogs.imf.org/2020/05/20/tracking-the-9-trillion-global-fiscal-support-to-fight-covid-19/