or US stocks, the firm filters out companies based on a lack of dividend-paying history and other criteria. The list of remaining companies is fed into the firm's machine-learning model, which is able to rank them based on their predicted dividend growth

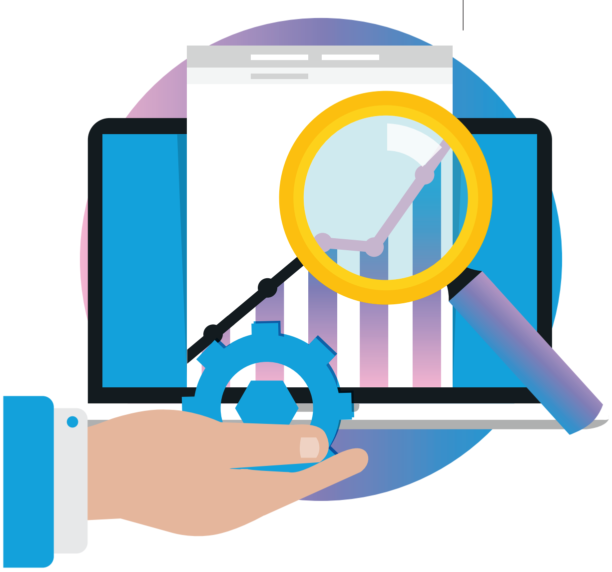
"Our fundamental analysis ensures that we are comfortable with the risks we'd be taking on"

over the next 12 months. The top companies are then subjected to Productive Capital Analysis, Bristol Gate's version of fundamental analysis.

"Our fundamental analysis ensures that we are comfortable with the risks we'd be taking on," Hamm says.

The decision to sell stocks from a portfolio is also designed to be evidence-based and bias-free. A dividend growth hurdle rate is set annually based on the lowest predicted dividend growth rate in the portfolio; a stock is sold if its growth rate falls below that hurdle at any point in the year.

Bristol Gate's ETFs aren't the only ones on the market that rely on technology for their investment processes, but Hamm argues that his firm's ability to combine unbiased machine learning with sound human judgment gives its funds an edge.



Elliot Johnson
Chief operating officer
EVOLVE ETFS

Years in the industry
14

Fast fact
Evolve ETFs recently launched the Evolve Blockchain ETF (LINK), an active fund investing in equity issuers that research, develop, use or supply blockchain-based technologies and applications

Q&A

Going active in blockchain

What positive developments are you seeing that would contribute to the growth of blockchain technology?
The main driver is the more widespread understanding of blockchain's potential for mainstream business application across different industries. In finance, the movement is focused on payments and contracts, which is helped by cryptocurrencies. A lot of work is being done around identity, like tamper-proof identity validation and digital authentication.

Supply-chain logistics is also a tremendous area of research. In August last year, 10 of the world's largest consumer goods and food companies – together representing more than US$500 billion in annual global sales – partnered with IBM to integrate blockchain into their supply chains. We've identified some very recognizable names like Thomson Reuters, Microsoft, Visa, Mastercard, SAP and Walmart with significant blockchain products and services.

How can Canadian investors benefit from active management as opposed to index-based strategies in the blockchain space?
It's important to exclude companies that don't offer legitimate blockchain-related products and services, and the algorithms behind index-based products don't go deep enough to do that. For example, it's come to light that Riot Blockchain, a Canadian company, was simply renamed by management that misrepresented themselves as crypto and blockchain experts. Riot is facing legal action, and its stock has declined by at least 20% over that. Index-based funds that buy stock in such a company wouldn't be able to sell it off until their next portfolio rebalancing date. Active funds might make the same mistake, but they would be able to sell off immediately and mitigate the portfolio impact.

Can you talk about the process you'll follow in managing LINK's portfolio?
Generally, we first define the universe of companies and work to understand the blockchain industry. Then we look for candidates with strong financial positions, credible products and management, and sound go-to-market strategies, as well as favourable market positions relative to their competitors. Finally, we decide how much weight each promising prospect should have in the portfolio and how often we might want to rebalance away from them toward a certain target portfolio. Moving forward, we're also watching out for new applications and other developments that could have an impact, like regulation, tax changes and so on.

Right now, there are no easy classifications for companies using blockchain, which fall into different investable industries. There's also a lack of good-quality third-party research to sift through, so we're piecing together a lot of information from investment banks and analysts who are just starting to cover the space. It's challenging, but investors need true exposure, and there's simply no substitute for hard work.