

## Evolve US Banks Enhanced Yield Fund

CALL offers investors potential benefits from the positive fundamentals of the largest U.S. banks, with the added value of a covered call strategy applied on up to 33% of the portfolio. Covered call options have the potential to provide extra income and help hedge long stock positions.

TSX

CALL

ETF TICKERS: CALL (HEDGED); CALL.B (UNHEDGED); CALL.U (USD)

### GENERAL INDUSTRY UPDATE



Source: Omar Chatriwala / Gettyimages

While the acute phase of the banking crisis that struck the US market early in 2023 seems to have diminished, in May there remained some residual jitters amongst regional lenders.

Fresh concerns of a widening financial crisis emerged early in the month when Los Angeles-based regional bank PacWest Bancorp announced it was exploring strategic options for its future, including the potential for a sale or efforts to raise additional capital. PacWest Bancorp reported a loss of \$1.1 billion in Q1 this year, which it attributed to the flight of shareholders to the safety of big banks.

This news sent stocks of other regional lenders sharply downward as fear grew that there might be a contagion within small to mid-sized banks.<sup>1</sup>

By mid-month, the regional banking sector found a renewed sense of confidence after PacWest Bancorp agreed to sell \$2.6 billion worth of real estate construction loans to global real estate investment firm Kennedy-Wilson Holdings

Incorporated in an effort to boost its liquidity. In addition, PacWest agreed to sell six other real estate construction loans with an average balance of \$363 million to Kennedy-Wilson.

Shares of other regional lenders also benefited mid-month after Western Alliance Bancorp announced strong deposit growth of more than \$2 billion in the three months ending May 12. This represented a significant turnaround for Western Alliance, whose shares had plummeted nearly 60% after reports that it, too, was exploring a sale of part or all of its business in recent weeks.<sup>2</sup>

With stability returning to the regional lenders in light of PacWest and Western Alliance's turnarounds in May, many industry observers suggest the crisis experienced by the U.S. banking sector in the early part of this year is now behind us.

## COMPANY SPECIFIC UPDATES



Source: First Citizens Bank

### First Citizens BancShares Inc.

First Citizens BancShares reported its Q1 earnings in May, highlighting the acquisition (through its banking subsidiary, First-Citizens Bank & Trust Company) of the deposits, assets, and liabilities of the defunct Silicon Valley Bank (SVB) from the Federal Deposit Insurance Corporation (FDIC).

The purchase of SVB included assets of \$106.60 billion, loans of \$68.50 billion, including Global Fund Banking, Private Bank, and Technology & Life Science and Healthcare portfolios, as well as \$35.28 billion in cash and interest-earning deposits at banks. Also, part of the deal was \$55.96 billion in customer deposits.<sup>3</sup>

First Citizens shares have added approximately 44.2% so far in 2023 versus the overall S&P 500's gain of 7.3%.<sup>4</sup>



**WELLS FARGO**



Source: Getty Images

### Wells Fargo & Co

Wells Fargo & Co has agreed to settle a lawsuit brought by shareholders who accused the bank of misleading them about its efforts to course correct from scandals involving the treatment of customers. A judge in a Manhattan federal court gave preliminary approval to the \$1 billion all-cash settlement in May. Final approval could come in September.

Wells Fargo denied any wrongdoing, with court records showing they agreed to settle the case now in order to avoid the costs and distraction posed by litigation.

Since 2018, Wells Fargo has been operating under consent orders from the Federal Reserve and other regulators, which mandate improved governance and oversight. In a recent letter to shareholders, CEO Charlie Scharf highlighted the strides made to improve both the culture and oversight at the nation's fourth-largest bank. "Today, we approach these issues differently," wrote Scharf.<sup>5</sup>

## PORTFOLIO STRATEGY AND ACTIVITY

For the month, First Citizens BancShares, Inc. made the largest contribution to the Fund, followed by Wells Fargo & Co. The largest detractors to performance for the month were First Horizon Corporation, followed by Citizens Financial Group Inc and Keycorp.

## PERFORMANCE (%)

TOTAL RETURNS*	1 MTH	YTD	1 YR	2 YR	3 YR	4 YR	5 YR	SI**
<b>CALL (HEDGED)</b>	-6.21	-27.16	-35.89	-23.40	1.77	-4.40	-6.18	-4.04
<b>CALL.B (UNHEDED)</b>	-5.92	-26.74	-30.38	-17.91	2.38	-2.83	-4.00	-1.41
<b>CALL.U (USD)</b>	-6.11	-26.93	-35.13	-22.60	2.86	-	-	-7.66

Source: Bloomberg, as at May 31, 2023.

\*\* Performance since inception of CALL and CALL.B on October 12, 2017.

Performance since inception of CALL.U on November 26, 2019.

## Sources:

1. Singh, M. & Chibuike, O., "PacWest stock plunges as US regional banking woes worsen," Reuters, May 4, 2023; <https://www.reuters.com/markets/us/pacwest-western-alliance-hit-us-banking-concerns-widen-2023-05-04/>
2. Nishant, N. & Chibuike, O., "US regional bank shares rally after Western Alliance reports deposit growth," Financial Post, May 17, 2023; <https://financialpost.com/pmn/business-pmn/us-regional-bank-shares-rally-after-western-alliance-reports-deposits-growth>
3. "First Citizens BancShares Reports First Quarter 2023 Earnings," First Citizen Bank, May 10, 2023; <https://ir.firstcitizens.com/news-and-events/newsroom/news-details/2023/First-Citizens-BancShares-Reports-First-Quarter-2023-Earnings/default.aspx>
4. "First Citizens BancShares (FCNCA) Misses Q1 Earnings Estimates," Yahoo Life, May 10, 2023; <https://ca.style.yahoo.com/first-citizens-bancshares-fcnc-misses-114511530.html>
5. Stempel, J., "Wells Fargo to pay \$1 billion to settle shareholder lawsuit over recovery from scandals," May 16, 2023; <https://www.reuters.com/legal/wells-fargo-reaches-1-bln-settlement-with-shareholders-over-recovery-scandals-2023-05-16/>

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\*The indicated rates of return are the historical annual compound total returns net of fees (except for figures of one year or less, which are simple total returns) including changes in per unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The rates of return shown in the table are not intended to reflect future values of the ETF or returns on investment in the ETF. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.

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