

Evolve Active Canadian Preferred Share Fund

DIVS seeks to provide holders of Units with stable income and long-term capital appreciation by investing primarily in a diversified mix of preferred shares of primarily Canadian issuers, in addition to U.S. and international issuers.

TSX

DIVS

ETF TICKER: DIVS (UNHEDGED)

MUTUAL FUND FUNDSERV CODE: EVF100 (CLASS F); EVF101 (CLASS A)

SUB-ADVISOR: ADDENDA CAPITAL



Active management in Canadian preferred shares continues to be an attractive investment opportunity. Addenda Capital is one of Canada's largest multi-asset investment firms, with over \$34.5 billion in assets under management*, including \$23.2 billion in fixed income and over \$708 million in preferred shares.

Source: Addenda Capital, as at December 31, 2023. *Excludes \$1.9 billion in Advisory assets and \$553 million in Overlay assets.

Market Review

In March, equities were led by strength in mining and cyclical sectors, with growth stocks and interest sensitives coming under pressure. Gold and base metal stocks increased over 15% on average, while oil and gas companies increased 10%. Telco's fell 7% with Technology names down 3% on average.

Strong equity returns were achieved in the quarter despite bond yields rising and Central Bank rate cut expectations being pushed out. We attribute this strength to the economic resilience being seen in many key geographies.

While the TSX Index has lagged the S&P Index, it also closed at all-time highs.

During the quarter, central bank policy in both Canada and the United States remained unchanged in observation of persistent inflation data and labour market strength.

Bond yields rose approximately 35bps across the curve in Q1, as interest rate markets priced out 3 of the expected 6 rate cuts. Data pointed to an uptick in the January and February CPI prints in the U.S., along with still strong labour reports, and a solid first quarter growth trajectory, led markets to push back their expectations for rate cuts which were priced for as early as March of 2024.

The S&P/TSX Preferred Share Index closed the first quarter up +9.61%, while closing the month of March, up 3.47%.

When looking at the underlying quarterly returns for the different preferred share types, the Fixed Resets, Perpetuals, and Floating rate returned: 10.84%, 5.39% and 5.90%, respectively.

Positioning

Preferred shares as an asset class performed well in the first quarter of 2024, as a number of banks announced redemptions which led the market to believe more bank preferreds will be called later this year.

Despite the rally in the broader market, the portfolio underperformed during the quarter as a result of having a more defensive posture, with a large fixed income exposure and lower fixed resets compared with the benchmark.

Perspective

The outlook for the preferred share market will be highly correlated to other risk assets and the movement of credit spreads. The Government of Canada's decision to exclude preferred share from the proposed dividend tax has removed a significant headwind for the asset class.

We are cautiously optimistic on credit spreads as the Central Bankers have made significant progress on taming inflation while the economy remained resilient. We look to continue to deploy a defensive tilt amid an expected slower macro environment.

Going forward, we expect preferred shares prices to be highly correlated to similar higher risk fixed income assets like, high yield, LRCN's, NVCC and hybrids. The portfolio is positioned to be defensive by holding a large cash & cash equivalents position (approx. 6%), fixed income (approx. 13%) and longer duration preferred shares (perpetuals and long-dated fixed rate resets).

Commissions, trailing commissions, management fees and expenses all may be associated with exchange traded mutual funds (ETFs) and mutual funds. Please read the prospectus before investing. ETFs and mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. There are risks involved with investing in ETFs and mutual funds. Please read the prospectus for a complete description of risks relevant to the ETF and mutual fund. Investors may incur customary brokerage commissions in buying or selling ETF and mutual fund units. This communication is intended for informational purposes only and is not, and should not be construed as, investment and/or tax advice to any individual.

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.

Certain statements contained in this documentation constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information may relate to a future outlook and anticipated distributions, events or results and may include statements regarding future financial performance. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "anticipate", "believe", "intend" or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information. Evolve undertakes no obligation to update publicly or otherwise revise any forward-looking statement whether as a result of new information, future events or other such factors which affect this information, except as required by law.