

Evolve Active Canadian Preferred Share ETF

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.

For the month ending February 28, 2019



TICKER: DIVS

SUB-ADVISOR: Foyston, Gordon & Payne, Inc.



Active management in Canadian Preferred Shares continue to be an attractive investment opportunity. Foyston, Gordon & Payne Inc. has managed Canadian Preferred Shares since 2012 and the FGP Preferred Share Fund since November 22, 2015.

OVERVIEW:

Financial markets continued to respond positively in February to the now-neutral Fed and a growing expectation for a resolution to the U.S./China trade negotiations. The S&P 500 has surged by over 11% in the first two months of the year (the TSX has done even better – up over 12%) making this the best start to the year since 1991. While several factors contributed to these results – growing optimism over U.S.-China trade talks, continued decent economic growth, as well as a return of risk appetite in markets that appeared to be oversold by the end of the year – the primary reason is the market's belief that the Federal Reserve intends to leave short-term interest rates unchanged while it takes some time to assess the impact of its previous interest rate hikes on an economy that still is not faced with meaningful inflationary pressures. The Bank of Canada too has indicated, although less clearly than the Fed, that it expects the pace of their expected rate hikes to slow at least for the first half of 2019. Interest rates were mostly unchanged at the front end of the yield curve while longer-dated maturity yields rose modestly, steepening the yield curve. The domestic five year bond yield increased by about 5 basis points in February while the equivalent rate in the U.S. increased by 7 basis points. For the year, the five yield is lower by 7 basis points in Canada and is unchanged in the U.S.

Even though risk assets (equities, corporate bonds, etc.) performed strongly to start the year, the preferred share market in Canada has been a little slower to rebound. We anticipate that in the coming months the market will gradually recognize the increasing dividend levels of preferred shares (even in the absence of moves higher in key interest rates) and the further improved valuation relative to more widely followed asset classes that have rebounded strongly this year. When viewed with a longer-term investment time horizon we remain quite comfortable with our underlying investments in the fund as well as with an increased allocation to the fund itself as the asset class is attractively valued and offers a significant yield advantage over other fixed income options available in the market today.

OUTLOOK AND PORTFOLIO STRATEGY:

Even though the domestic economy is moderating from the higher levels seen in previous years, it is our expectation that we will see positive growth in the near term which should work to support risk assets going forward. Given this positive view the FGP outlook is for short-term Canadian interest rates to trend higher over time. Combining fundamental strength with higher Canadian interest rates should provide additional stability to market prices for preferred shares while allowing for modest capital appreciation.





As mentioned above, the asset class is currently attractively valued and offers a significant yield advantage over other fixed income options available in the market today – a further source of support.

Overall the portfolio strategy remains little changed from the end of 2018 as we continue to allocate capital towards investment opportunities that offer the highest probability for superior risk-adjusted returns.

The Evolve Active Preferred Share ETF (DIVS) returned 1.75% in the month of February, a notable strengthening but lagging the improved tone in risk markets globally.

Commissions, management fees and expenses all may be associated with an investment in the exchange traded funds managed by Evolve ETFs (the "ETFs"). The prospectus contains important detailed information about the ETFs. Please read the prospectus before investing. 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.

Investment returns and assets under management are expressed in Canadian dollars unless otherwise noted. Investment returns are gross of investment management fees, net of fund expenses for FGP pooled funds, and include reinvestment of dividends and income. Returns are time weighted and annualized for periods greater than one year. Values change frequently and past investment performance may not be repeated. Securities mentioned herein are not to be construed as recommendations to buy or sell and are not representative of Foyston, Gordon & Payne Inc. accounts/portfolios as a whole. Any projections in this investment presentation are estimates only and may not be realized in the future. Any information herein describing FGP's pooled funds is for illustration purposes only.