TSX **DIVS**

MONTHLY COMMENTARY

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.

For the month ending April 30, 2019

TICKER: DIVS

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

Foyston, Gordon & Payne Inc.
Investment Counsel

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:

With the Fed on the sidelines and the Bank of Canada also on hold for now, equity markets continued to move higher during the first month. The TSX jumped over 3% in April and is up almost 17% year-to-date. This despite the release of a negative real GDP number for February that will probably drag growth in the first quarter to below 1%. The U.S., on the other hand, looks to have grown by 3.2% in the first quarter. Over the balance of 2019 we would expect to see a rebound in GDP growth in Canada and some slowing in the U.S. as there were temporary influences on both results. While headline and core inflation rates in Canada are in line with target levels there is some concern that core inflation in the U.S., using the Fed's preferred measure – the core Personal Consumption Expenditures index of inflation - has fallen further in 2019 to 1.6% year-over-year, after being mostly stable in 2018 around 2%. This helped to keep interest rates relatively stable in April, particularly at the front end of the yield curve where there was no change in the yield of the five-year Government of Canada bond. Longer-term yields rose by approximately 10 basis points. Treasury yields in the U.S. performed in a similar manner.

Throughout April most risk assets (equities, corporate bonds, etc.) continued the strong performance from Q1 while the preferred share market lagged. On a positive note, the market for preferred shares in Canada continues to firm up and traded in a tight range for most of the month. The preferred share market in Canada has been a little slower to rebound and we anticipate that in the coming months the market will gradually recognize the high dividend levels of preferred shares (even in the absence of moves higher in key interest rates) and the further improved valuations 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.

During the month there continued to be some unusual selling pressure in the preferred share market, although in general it was much more muted than recent history with the exception of a few very large block trades in BCE at the beginning of the month. Market activity continues to be less focused on company and security quality and more focused on movements in underlying reference rates. As a result, pricing in the preferred share space continues to be significantly dislocated from long term value and credit quality.

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The Fund's strategy continues to focus on lower risk companies and credit risk-adjusted returns. We expect this asset class to revert to a more properly priced environment as sentiment improves with stability in the economic data and rates.

OUTLOOK AND PORTFOLIO STRATEGY:

Even though the domestic economy has moderated from the higher levels seen in previous years, it is our expectation that we will see growth in the near term which should work to support risk assets going forward. Given this positive view the FGP outlook is for Canadian interest rates to gradually trend higher over time. Combining fundamental strength with firming interest rate levels 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 has made modest changes to remain positioned in companies and their securities that are undervalued relative to the inherent credit risk profile. We continue to allocate capital towards investment opportunities that offer the highest probability for superior risk-adjusted returns throughout a cycle.