

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 July 31, 2018



TICKER: DIVS

SUB-ADVISOR: Foyston, Gordon & Payne Inc. ("FGP")



Preferred shares are hybrid securities with both equity and fixed income characteristics.

MONTHLY REVIEW:

Economic growth continued to accelerate in both Canada and the United States throughout July. Second quarter GDP for the U.S. came in at a strong +4.1% and Canada is forecast to have grown around the 3% level. Both levels of growth are probably unsustainable as numerous economic uncertainties remain – notably the impacts of U.S. trade policy and the pace of monetary policy tightening in both countries – but, overall, growth for 2018 looks to be above the trend of the past few years.

Inflationary pressures have been slowly building this year with headline and core inflation rates in both countries now around the 2% level. Strong job growth and decent wage gains have translated into strong consumer spending that continues to provide the bulk of the economic support.

Globally, there has been little change in the outlooks for monetary policy – none of the ECB, Bank of Japan or the Bank of England made any change in policy rates in July although all have modest plans to reverse historically easy monetary conditions. The Bank of England hiked its policy rate at the start of August. The U.S. Federal Reserve Bank is expected to raise rates twice more this year while the Bank of Canada is expected to go one more time.

During the month of July, the five-year government bond yield increased by 15 basis points in Canada and by 11 basis points in the U.S. The increases to rates came predominately at the end of July despite the bank of Canada raising the overnight rate by 25 basis points on July 11.

The movement higher in the 5-year GoC did eventually translate into a move higher in the broader preferred share market although the price appreciation remains muted relative to the size of the interest rate move. This highlighted the continued benefit of preferred shares as a complimentary asset class to bonds as they reduce a portfolio's sensitivity to interest rates and provide a modest capital appreciation with rising rates.





OUTLOOK AND PORTFOLIO STRATEGY:

Overall the Canadian economy is performing well but we expect sentiment will remain subdued as protectionism/trade headlines continue to make the market uneasy and uncertain of the full impact on the Canadian economy. This has tempered expectations for the pace of rate hikes in Canada.

While we expect to continue to see periodic uncertainty in the market that is driven by political headlines, we still view the underlying economic data in North America as strong enough to warrant additional hikes in 2018 by the both the Fed and possibly the BoC. The FGP outlook for short-term rates should continue the trend of higher 5-year rates and provide additional stability to market prices for preferred shares while allowing for modest capital appreciation.

The portfolio strategy remains mostly consistent with last quarter. The portfolio began reducing its overweight to certain rate resets as the valuations appeared extended. The portfolio will maintain exposure to corporate rate-resets that carry a floor feature and trading below par. These securities should reduce the ETF's sensitivity to interest rates while providing above-market dividend yields.

At current interest rate levels there appears to be modest value in certain floating rate securities that react favourably to rising rates and offer an attractive risk/reward balance. These securities will continue to have an overweight position and when combined with a higher yield than the index should provide additional support for the fund even if the market expectations for interest rates are not fully realized.



Ryan Domsy
Vice President &
Portfolio Manager,
Foyston, Gordon & Payne Inc.

DISCLAIMER

Commissions, management fees and expenses all may be associated with exchange traded funds (ETFs), mutual funds and pooled funds. Please read the prospectus before investing. ETFs, mutual funds and pooled funds ("investment products") are not guaranteed, their values change frequently and past performance may not be repeated. There are risks involved with investing, please read the prospectus and investment documentation for a complete description of risks relevant to these investment products. Investors may incur customary brokerage commissions in buying or selling ETF units. Securities mentioned herein are not to be construed as recommendations to buy or sell and are not representative of Evolve ETFs or Foyston, Gordon & Payne Inc. accounts/portfolios as a whole.