TSX **DIVS**

QUARTERLY REVIEW

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 September 30, 2018

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.

PERFORMANCE:

The Evolve Active Canadian Preferred Share ETF ("DIVS") returned 8.45% so far in 2018, outperforming the S&P/TSX Preferred Share Index return of 5.52% by 293 basis points. In Q3 2018, the ETF returned 2.14%, compared with the benchmark's return of 1.60%.

DIVS is Canada's Best Performing Preferred Share Fund Over the Past 12 Months (as at September 30, 2018).

ECONOMIC REVIEW:

As the third quarter concluded so did months of negotiations that lead to an agreement on a revamped trade deal with the United States and Mexico. In short, Canada did preserve tariff-free market access in the U.S. as well as the impartial arbitration panel for dispute resolution but had to give ground in terms of a cap on auto exports, allowing increased access for U.S. dairy farmers to Canadian consumers as well as agreeing on a 'sunset' clause that will allow the trade pact to be reopened for review every six years.

Arguably, Canada did give up more ground that it gained but this shouldn't be too surprising given the export-dependent nature of the domestic economy – 75% of our exports go to the U.S while only 20% of U.S. exports come to Canada. Canadians had much more to lose if the threat of increasing tariffs became a reality.

There are some positives though - this agreement removes some of the uncertainty regarding business investment as capacity utilization rates are quite high in several industries and this, historically, has led to increased capital expenditures. Also, the federal government can now turn its attention to levelling the playing field with the U.S. in terms of tax cuts for business and the introduction of new productivity boosting measures.

The announcement of this trade deal does remove the last barrier to the normalization of monetary policy by the Bank of Canada (BoC). Reduced concern over tariffs and trade barriers will allow the BoC to focus on inflationary pressures – core inflation in August was the highest since 2012 – building within an expanding economy. The BoC did raise rates in July and is now expected to again in October as well as in January.

Following the direction of interest rates in the U.S., yields in the domestic bond market rose noticeably across the curve throughout the quarter. Short-end yields rose at a slightly faster pace than long-end yields, thus flattening the full yield curve to a level not seen since 2007. The yield curve remains positively sloped, but only marginally so with just 20 basis points of yield separating two-year and thirty-year maturities. The flattening trend matched the pace south of the border with both the Federal Reserve Bank and the BoC continuing to tighten monetary policy.

TSX DIVS Evolve Active Canadian Preferred Share ETF

DIVS IN Q3:

During the quarter, the five-year government bond yield (and most of the yield curve) experienced significant volatility. The 5-year Government of Canada yield rose by about 25 basis points during the first month of the quarter before experiencing a reversal that persisted until the beginning of September. The 5-year GoC rate finished the quarter up about 30 basis points. The movement in the 5-year GoC did not lead to much volatility in the preferred share market although directionally was positive from a price return perspective. This highlights the continued benefit of preferred shares as a complimentary asset class to bonds as they reduce a portfolio's sensitivity to interest rates.

The most notable event during the quarter was the proposed acquisition of Aimia by Air Canada. The Aimia prefs had been trading in a range indicating a high probability of default after Air Canada announced in 2017 that it was walking away from Aimia at the end of the current contract. This decision decimated Aimia's credit profile and pushed it to the non-investment grade space. Air Canada has since decided to acquire Aimia as at the decimated share price it is more cost/time effective to acquire Aimia instead of building a new loyalty program. We do not hold securities such as this in the portfolio due to the binary nature of the potential outcomes. DIVS instead focuses on better risk-adjusted returns and capital preservation. The portfolio has generated significant value year-to-date of 293 basis points. In Q3 the ETF shifted its bank holdings modestly to preferreds that have solid market yield and yield-to-call characteristics. The ETF is maintaining exposure to floating rate preferred shares as the pricing/yield characteristics are relatively attractive in the current environment.

OUTLOOK AND PORTFOLIO STRATEGY:

Canada's economic data continued to be positive in Q3 making the second hike of the year by the BoC a non-event. Since that hike sentiment has improved, as data remained positive, while negativity from protectionism/trade headlines has abated given the announced trade agreement with the US. As a result, expectations for rate hikes have improved, and the market is now pricing in an October as well as January hike. At FGP we view the underlying economic data in North America as strong and sufficient to warrant hikes by both the BoC and the Federal Reserve in the coming 6 months. 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 reduced its overweight to certain rate resets as the valuations appeared extended. This provided an opportunity to increase exposure to corporate rate-resets that carried a floor feature but were 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 ETF even if market expectations for interest rates are not fully realized.

The indicated rates of return are the historical annual compounded 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.

DIVS is Canada's best performing preferred share fund based on total returns for both year-to-date and one-year returns for the period ending September 30, 2018, based on the Morningstar Preferred Share Fixed Income category which consists of Canadian ETFs and Canadian open-ended mutual funds that primarily invest at least 90% of their fixed income holdings in preferred shares. For each of the year-to-date and one-year performance periods, there were 17 publicly offered ETFs and 29 mutual funds, in the Morningstar Preferred Share Fixed Income category. Please refer to www.morningstar.ca for more details.

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.