TSX **DIVS**

MONTHLY COMMENTARY

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 November 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.

ECONOMIC REVIEW:

The equity market volatility experienced in October continued into November with nervousness spreading into the bond and preferred share markets as interest rates fell and corporate credit spreads moved wider after largely shrugging off October's downdraft in equity prices. While there are some signs of economic slowing in the U.S. these remain mostly at the margin and forecasts for the coming year expect only a modest drop from the pace of the past few, post-tax stimulus, months. The Federal Reserve continues to signal that there will be more rate increases, as soon as mid-December, but the tone of these signals has become more modest as market gyrations increased. Accordingly, the market's expectations for the Federal Funds rate have fallen well below those officially indicated by the Fed itself. Canada has shown more signs of slowing but growth, overall, remains solid. The Bank of Canada provides little forward guidance but has been leaning toward a rate increase in January. The Bank has time to further assess incoming economic data, market activity, the impact of the Fed's (as well as their own) past rate hikes, as well as more recent developments such as Alberta's just-announced oil production cut that will temporarily slow growth in that province but also nationally. Resulting from a 'flight-to-safety', the domestic five-year government bond yield fell by over 20 basis points in the month, back to a level last seen in early September of this year.

In November, preferred shares eventually yielded to the widening risk-off sentiment in the Canadian and global markets and saw persistent losses throughout the month. This weakness has been significant and has been driven by contagion from equities with an added impact from increased selling activity from the retail segment of the pref market. The activity from retail investors seems to be skewed towards holdings that were materially down on the year which may imply much of it is related to tax-loss selling. A benefit of this is that it has translated into dramatically different performance from similar prefs which has set up opportunities that should add value in the future. Over the short-term, we expect that the preferred share market will continue to be heavily influenced by the current risk-off tone in the equity markets but that overall the preferred share market is an increasingly attractive outright buying opportunity. Additionally, there has been an increasing dislocation between bonds and prefs which has been exacerbated over the last few weeks and 'buy prefs, sell bonds' is now a great relative value trade.

Going forward we are positive on the economic outlook for North America which, combined with the improving trade picture, should move markets higher in the coming months. This should allow for rates to begin to move higher again which should bolster the preferred share market in Canada. Eventually, the move to higher rates will be reflected in higher preferred share dividends that should provide the opportunity for capital appreciation in addition to the currently outsized dividends being paid.

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