

Evolve Active Core Fixed Income Fund

FIXD invests primarily in domestic and international high quality fixed income securities, and to a lesser extent, adding yield or enhancing returns on the portfolio by opportunistically investing in international fixed income securities, emerging market debt, preferred shares, convertible bonds and non-investment grade bonds.



For the month ending April 30, 2019

TICKER: FIXD

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



Fixed income allocations remain a core component of many investor portfolios as a source of income and portfolio diversification. Foyston, Gordon & Payne Inc. has managed the FGP Core Plus Bond Fund since December 31, 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.

Corporate credit performed well as spreads moved meaningfully tighter along with other risk assets in the financial markets further generating strong returns. However, Provincial bonds performed only in line with Federal bonds as the long duration of the Provincial segment offset the modest spread performance.

In April, the credit markets were strong, and spreads tightened across the curve and credit spectrum. The primary factors responsible for performance this quarter were security selection and the credit risk positioning of the Fund. Our corporate bonds delivered solid performance relative to the index despite the relatively defensive positioning for the strategy. During Q1 we began to increase exposure to higher beta securities in the portfolio as they began to look more attractive on a risk-adjusted basis. This included purchases of additional subordinated bank debt and new issuances of bail-in deposit notes which have since performed very well.

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.





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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.

With the duration of the portfolio more than one year below that of the benchmark, the flat to higher interest rate environment was slightly positive for performance. The benchmark 5-year Government of Canada bond yield finished April essentially unchanged while the 30-year increased by about 10 basis points.

OUTLOOK AND PORTFOLIO STRATEGY:

Overall portfolio strategy was little changed from the end of Q1. The Fund continues to hold increased allocations to both corporate bonds and preferred shares compared to 2018. Additionally, the Fund currently has minimal exposure to high yield bonds. While the domestic economy has moderated from the highs in previous years, we continue to expect to see growth in the near term which should work to support risk assets going forward. Further, we remain confident in the credit quality of the individual investments we have made in each of these asset classes. Portfolio duration remains below the benchmark's duration as FGP continues to have an unfavorable long-term view of the bond market's risk/reward characteristics. FGP continues to believe that interest rates remain at a level inconsistent with Canada's economic fundamentals. The portfolio is positioned to perform well against its benchmark in a stable to rising rate environment.

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.

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.