

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 June 28, 2019

ETF TICKER: FIXD (Unhedged)

MUTUAL FUND FUNDSERV CODE: EVF110 (Class F); EVF111 (Class A)

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:

The broader Canadian bond market had an eventful quarter as both rates and spreads experienced volatility. That being said, there are a number of variables that remain unchanged from the most recently released updates – a moderating global growth environment, subdued (but still positive) inflation profiles across the developed world, and a market obsessively focused on the short term news cycle trying desperately to decipher even the slightest of changes in ongoing trade tensions between global leaders. None of these appear to be changing anytime soon.

Corporate credit performed well over the course of the quarter; however, spreads were volatile as the market reacted to surprises on the global trade front. The provincial segment of the market performed well from a spread perspective but also from the rate move as the sector benefited from its long duration in a declining rate environment.

With credit markets finishing the quarter strong and spreads tightening across both the curve and credit spectrum we have once again turned our attention to de-risking the portfolio. Our corporate bonds performed relatively well despite the relatively defensive positioning for the strategy.

The preferred share market experienced renewed pessimism during the quarter as the credit environment weakened and concerns grew over the trade war eventually having a notable impact on growth. All that being said, the preferred share market is at historically low levels and currently offers yields and spreads that are exceptionally wide versus other income producing assets. We anticipate that pref yields are now at such relatively aggressive levels that in the coming months the market will gradually recognize the high dividend levels of preferred shares. 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 below that of the benchmark the declining interest rate environment was negative for performance. The benchmark 5-year Government of Canada bond yield finished Q2 down 13 basis points while the 30-year fell by 21.



OUTLOOK AND PORTFOLIO STRATEGY:

Overall portfolio strategy was little changed throughout the quarter. 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 1.5 years 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's duration positioning should perform well against its benchmark in a stable to rising rate environment, notwithstanding the Fund's credit exposure and security selection being the driving factor in overall Fund performance over time.

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.