

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 October 31, 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 month of October brought a welcome respite from recent market volatility-inducing geopolitical headlines. The U.S. and China are slowly moving towards a 'Phase 1' trade agreement and a potentially destructive 'no deal' Brexit has been avoided, for now, with the European Union (EU) granting U.K. parliament an official 3-month extension to ratify the terms of the country's withdrawal. The EU went on to say that the new January 31st deadline will be the last extension granted but a degree of skepticism about this is certainly warranted. The U.K. parliament then promptly called a December 12th general election with Boris Johnson's Conservatives polling well at the outset. Unrest in the Middle East, Hong Kong and the start of an impeachment inquiry of President Trump did not significantly move markets.

More impactful were interest rate announcements from the U.S. Federal Reserve (the Fed) and the Bank of Canada (BoC) near the end of the month – both on the same day. The Fed cut its interest rate by 25 basis points for the third time in three meetings, taking the rate down to 1.50%-1.75%. Consistent with his earlier characterization of this rate-cutting cycle as being a short one, Fed Chair Jerome Powell, signalled a potential pause as the committee remains relatively comfortable with the strength of the U.S. economy. The BoC left its rate unchanged at 1.75%, marking a full year with no change. The BoC did however revise its 2020-21 projections for GDP growth downward, warning the economy's resilience thus far will be tested by trade conflicts and geopolitical uncertainty. Healthy employment levels in Canada and recent housing market strength have been overshadowed by increasing risks from global trade disputes and a surprisingly strong Canadian dollar, leading the markets to conclude that the BoC will be considering a rate cut at future meetings.

MARKET INSIGHTS:

The relative optimism from the Fed and the relative pessimism from the BoC were reflected clearly in the equity markets as the S&P/TSX Index (CAD) fell by 1.5% and the S&P 500 Index (CAD) rose by 1.4% in October. Despite some continued volatility in rates, there was very little change in bond yields for the month. The benchmark five-year Government of Canada bond yield rose just 2 basis points to 1.42% and the equivalent issue in the U.S. fell by 3 basis points to yield 1.53%.



OUTLOOK AND PORTFOLIO STRATEGY:

The portfolio maintained its duration at 1.5 years short of the benchmark. Overall this year, the portfolio's below-benchmark duration position has acted as a drag on relative performance, however, it is consistent with our view that long duration bonds – with a yield well below the rate of inflation – remain a risky investment. Our continued focus for the portfolio is on the preservation of capital in this low interest rate environment. On a duration-adjusted basis corporate bonds added positively to performance. This is mainly attributed to security selection as our corporate bond investments outperformed their corporate bond benchmark. The portfolio maintained its overweight position in this sector during the month. Our long-standing strategy of improving the credit quality of our corporate investments also remains in place – October saw a reduction in subordinated bank debt and subsequent increase in senior bank debt as well as a shift towards lower credit risk banks. Preferred shares experienced some much-appreciated stability and acted as a positive contributor to performance during the month.

We continue to be positioned with a shorter-than-benchmark duration and an overweight to higher quality corporate bonds as we view the risk-reward of longer bonds and riskier credits as unattractive. The portfolio gains a meaningful yield advantage through a small weight in hybrid securities and an exposure to preferred shares which both currently offer yields dramatically above riskier bonds.

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 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.