TSX **DIVS**

MONTHLY COMMENTARY

Evolve Active Canadian Preferred Share Fund

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 29, 2019

ETF TICKER: DIVS (Unhedged)
MUTUAL FUND FUNDSERV CODE: EVF100 (Class F); EVF101 (Class A)
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 UPDATE:

For the second consecutive month investors welcomed a reprieve from the market volatility witnessed earlier in 2019. Benchmark yields across the developed world continued their slow march higher and away from the turbulent market clearing levels we saw just a couple months ago. The benchmark U.S. 10-year yield rose 9 basis points in November to end the month at 1.78%. More notably, the benchmark U.S. 10-year yield is now up 32 basis points off the end of summer lows. Yields on the comparable Canadian issue also moved higher by 4 basis points during the month to yield 1.46%. Risk assets responded positively to the reduction in market volatility-inducing geopolitical headlines, with most major equity and credit markets finishing the month firmly in positive territory.

Despite this positive tone the outlook going forward remains somewhat murky. There has been very little tangible progress toward a resolution on the biggest issues currently facing financial markets. As we head into the final month of 2019, the primary risk to 2020 outlook remains the trade relations between the U.S. and China and the potential escalation of international trade wars. Unfortunately, the two countries have not yet been able to turn the page on even Phase One of the agreement (which was supposed to be the easy part), arguing that this will remain an overhang for the foreseeable future. Add to this the very much unsettled Brexit/U.K. election situation, ongoing geopolitical unrest throughout the Middle East and Hong Kong, as well as the continued impeachment saga of the current U.S. president, and its clear there is no shortage of downside risks and plenty of uncertainty. Of course, none of these risks are new. They have already been the driver of much of the central bank easing we have witnessed so far in 2019 – most notably from the U.S. Federal Reserve and the European Central Bank. We will continue to watch closely to see if the current central bank 'insurance' proves sufficient to support further stabilization going forward.

PREFERRED SHARES MARKET UPDATE:

The improvement in sentiment towards the preferred share market that we saw in October carried into November. Although it was a relatively uneventful month, there are a few developments that will likely prove impactful in the coming months.

First, cash levels are elevated and feedback from traders point to investors looking for a suitable entry point.

Second, an unusually large short position has accumulated on the Canada's largest preferred share ETF by market cap. This short position is expensive for the borrower to carry given the high cost they must pay to the lender to borrow the shares. Should the borrower unwind their short position, it would lead to material and broad buying of individual rate reset preferred shares.

Third, there appears to be renewed interest in preferred shares from institutional bond investors which could provide support. These factors combined with the Canadian preferred share market continuing to exhibit fundamental characteristics that are historically attractive implies that returns over the next year should outperform other fixed income market segments.

PORTFOLIO UPDATE:

Our outlook for preferred shares continues to be positive, largely driven by the significant yield advantage preferred shares offer relative to other fixed income options available in the market today. For example, compared to corporate bonds, the 6% dividend on our preferred share portfolio offers investors an additional yield of 325 basis points above the FTSE Canadian Corporate Bond Index. This yield will *increase* slightly over time, *even in the absence of an upward move in key interest rates*.

Furthermore, the primary driver of performance through a cycle for this strategy is security selection, not interest rate anticipation. Our portfolio is constructed based on thorough credit research and associated valuation methodologies to identify undervalued securities relative to the market. The portfolio's strategy continues to focus on lower risk companies and credit risk-adjusted returns. We expect this asset class to revert to a more properly priced environment as sentiment improves towards the space from stability in the economic data.

We see meaningful upside in our portfolio, however, in the short term, the market is a mechanism that reflects sentiment, not value. At its present level, the preferred share market implies an incredible opportunity for investment gains. These types of opportunities for outsized returns over the medium term from investing in low-risk companies are rare. In the two years following the last correction which bottomed in February 2016, the broader preferred share market saw returns of 39%. We see similar opportunities for outsized returns in the preferred share market today and believe investors who take a long-term view will be rewarded.