

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 December 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.

MARKET AND PORTFOLIO UPDATE:

The primary contributor to performance during the quarter was the portfolio's below-benchmark duration position, which helped to offset the decline in bond prices that resulted from a rise in interest rates during the quarter. An overweight allocation to corporate bonds and exposure to hybrids and preferred shares also acted as key contributors to portfolio performance.

The increase in interest rates during the quarter presented some opportunity to modestly increase portfolio duration. As such, portfolio duration is currently 1.4 years below that of the benchmark, compared to 1.5 years short at the end of the third quarter.

Corporate bonds contributed positively to performance as our holdings outperformed both provincial and federal bonds and the corporate bond benchmark. Top performing holdings include hybrid issues from TransCanada Trust and Enbridge Inc. The portfolio's exposure to preferred shares was a key contributor to performance as our holdings outperformed corporate bonds as well as the broader preferred share market during the quarter. The portfolio offers a meaningful yield advantage through a small weight in hybrid securities and an exposure to preferred shares. These hybrids and preferreds currently offer yields dramatically higher than bonds of companies with higher credit risk.

In keeping with our long-standing strategy of improving the credit quality of our corporate investments, we shifted away from Canadian Western Bank in November in favour of debt issues from banks with lower credit risk. Furthermore, the portfolio has no exposure to high-yield bonds, having eliminated the last position at the end of October.

We maintain our overweight position in higher quality corporate bonds and an underweight position in longer-dated issues, as investors are not being sufficiently compensated for the additional risk of investing in long-term bonds or those with higher credit risk.

Despite the increase in interest rates toward the end of 2019, long duration bonds – with a yield well below the rate of inflation – remain a risky investment. Our focus is on the preservation of capital in this low interest rate environment. We continue to look for opportunities to increase the credit quality of our portfolio without forfeiting our above-benchmark yield generation.

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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.