

## 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 January 31, 2019



**ETF TICKER:** DIVS (Unhedged)

**MUTUAL FUND FUNDSERV CODE:** EVF100 (Class F); EVF101 (Class A)

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



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:

New year optimism has been taken down a notch by the growing impact, both human and economic, of the ongoing coronavirus outbreak. It is still early, but the current day-to-day fear and uncertainty will almost certainly impact economic releases in the months to come. Overall growth in China for the first quarter of 2020 will be lower, it is only a question of magnitude. Population lockdowns, business shutdowns, and travel restrictions into the country will have a dampening impact with early estimates suggesting it could cost the country upwards of 1% in GDP growth. The longer all these factors persist the greater the chance that global trade and industrial supply chains are impacted which would further weaken global growth prospects.

### MARKET UPDATE:

Commodity prices have been quick to react to the potential global growth slowdown with both oil and copper experiencing meaningful declines in the first month of the year. After a rise in interest rates during the fourth quarter of 2019, softer energy markets, slow global growth and a general flight-to-quality had yields heading lower once again. The benchmark U.S. 10-year declined by a material 40 basis points in January to end the month at 1.52%. Yields on the comparable Canadian issue also moved lower by 43 basis points during the month to 1.27%.

Equity markets seem to be taking a more sanguine view of the developing risk to global growth. While North American equity markets have come off their record highs set only a few weeks ago, most remained in positive territory by the end of the month. Other risk assets such as Canadian corporate credit spreads followed in the footsteps of the equity markets, generating positive returns to start the new year while the preferred share market was flat, demonstrating that preferred shares have low to no correlation to changes in interest rates.

### PORTFOLIO UPDATE:

Our portfolio was modestly lower to start the year following strong absolute and relative returns in the fourth quarter of 2019. The portfolio's strategy remains consistent and 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. Our portfolio offers an attractive yield of 5.8% providing investors with an



additional yield of 333 basis points above the FTSE Canadian Corporate Bond Index. This yield should *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.

Preferred shares continue to trade at historically low levels and offer yields and spreads that are exceptionally wide relative to other income producing assets. These factors should continue to drive outperformance for the asset class going forward. We see meaningful upside in our portfolio and expect this asset class to revert to a more properly priced environment as sentiment improves towards the space from stability in the economic data.

---

*Commissions, management fees and expenses all may be associated with an investment in the exchange traded funds managed by Evolve ETFs (the "ETFs"). The prospectus contains important detailed information about the ETFs. Please read the prospectus before investing. This communication is intended for informational purposes only and is not, and should not be construed as, investment and/or tax advice to any individual.*

*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.*