

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 January 31, 2020

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.

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:

Portfolio duration was 6.7 years at the end of the month, compared to 8.1 years for the benchmark. Given the large decline in yields, it should come as no surprise that the portfolio's below-benchmark duration positioning was the primary detractor from relative performance.



Our core universe and corporate bond holdings both performed positively in January. Preferred shares were a modest detractor from the portfolio return to start the year, following a strong end to 2019. The portfolio offers a meaningful yield advantage through a small weight in hybrid securities and an exposure to preferred shares. These hybrids and preferreds both currently offer yields dramatically higher than bonds of companies with higher credit risk.

We have maintained 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. Furthermore, the portfolio has no exposure to high-yield bonds, having eliminated the last position during the final quarter of 2019 as this segment of the market appears overvalued.

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.