

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 February 28, 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 faded in February amid the growing impact, both human and economic, of the ongoing coronavirus outbreak. As the outbreak spreads the 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 all have a dampening impact on 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 in the short-to-medium term.

MARKET UPDATE:

Commodity prices turned sharply lower at the end of February amid concerns the ongoing coronavirus outbreak will lead to weaker demand for raw materials, fuel and food across the globe. Softer energy markets, slow global growth and a general flight-to-quality had bond yields heading lower once again. The benchmark U.S. 10-year yield declined by a material 36 basis points in February to end the month at 1.16%. Yields on the comparable Canadian issue also moved lower by a more modest 14 basis points during the month to 1.13%. This decline in yields resulted in positive returns for the overall bond market.

For most of the month global equity markets remained calm and shrugged off the developing risks to global growth. However, this abruptly changed in the final week of February as equity markets globally fell by record levels. The preferred share market continued its recent trend of reflecting negative equity sentiment and fell. Other risk assets responded less drastically than equity markets. Canadian corporate credit spreads for example have yet to see significant widening which combined with the declining government yields, has translated into positive returns.

PORTFOLIO UPDATE:

Portfolio duration was 6.6 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. Overall bond returns were positive, however preferred shares, having little to no correlation to changes in interest rates, detracted from portfolio performance as prices fell in sympathy with equity markets.

Our corporate bond holdings performed positively in February. 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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