

Evolve Dividend Stability Preferred Share Index ETF

PREF invests in 50 high quality preferred equity securities of companies listed in Canada.

As at June 30, 2020



TICKER: PREF (Unhedged)

MACROECONOMIC HIGHLIGHTS:

Canadian preferred shares underperformed all major asset classes during the first half of the year, led by floating rate and fixed reset preferreds with low resets which experienced a sharp sell-off.

During the first quarter, preferreds did not escape market volatility triggered by the coronavirus, and were further impacted by central banks around the world cutting interest rates to record lows in their quest to stimulate their economies which had slowed to a crawl.

The Bank of Canada cut interest rate three times in the month of March alone, with rates declining dramatically, from 1.75% to 0.25%.

As a result, interest rates came under substantial pressure with global yields courting negative territory on the back of an uncertain global economic outlook. Fixed reset preferreds which make up almost three-quarters of the Canadian preferred market were the most affected by low yields.

In the second quarter, preferreds regained some ground on the back of tightening credit spreads and stabilizing fund flows, albeit in a continuing low rate environment. Credit spreads tightened in June in the wake of government and central bank stimulus.

During the first half of 2020, the ETF portfolio maintained no exposure to floating rate preferreds with a higher allocation to P1 credit quality which has proven to be more resilient during market sell offs. In addition, all rate reset preferreds held by the ETF have a minimum floor built in.

DISCLAIMER:

Commissions, management fees and expenses all may be associated with exchange traded mutual funds (ETFs). Please read the prospectus before investing. ETFs are not guaranteed, their values change frequently and past performance may not be repeated. There are risks involved with investing in ETFs. Please read the prospectus for a complete description of risks relevant to the ETF. Investors may incur customary brokerage commissions in buying or selling ETF units.