

# 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.

TSX

DIVS

ETF TICKER: DIVS (UNHEDGED)

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

SUB-ADVISOR: ADDENDA CAPITAL



Active management in Canadian preferred shares continues to be an attractive investment opportunity. Addenda Capital is one of Canada's largest multi-asset investment firms, with over \$38.1 billion in assets under management, including \$26.1 billion in fixed income and over \$1.2 billion in preferred shares.

Source: Addenda Capital, as at December 31, 2021. \*Excludes \$1,533 million in Advisory assets and \$354 million in Overlay assets.

## General Industry Update

Markets sold off for most of the month, with similar themes continuing to weigh on performance including the ongoing conflict in Ukraine, rising interest rates, recession fears, and rising input costs. Weak earnings results from large US retailers reinforced concerns that high inflation will force consumers to pull back on spending. Markets saw a rebound towards the end of the month as CPI suggested that price increases might be slowing but clearly, we are not out of the woods yet.

May continued to be a challenging month for most investment markets apart from the Energy sector. The Canadian equity market, as measured by the S&P/TSX Index, returned 0.1% during the month as a result of a rally in energy stocks which increased 8.9% as inventory levels of oil, natural gas, and refined products are at multi-year lows and projected to move lower, despite a shift lower in global GDP in 2022. Similarly, the S&P 500 Index (\$CAD) declined -0.9% with the Energy sector being the best performing sector returning close to 15%. The Canadian fixed income market was relatively flat with the FTSE Canada Universe Index declining -0.1%, with short-term bonds outperforming long-term bonds. Foreign bonds were modestly positive in local currency terms but negative for Canadian investors due to the appreciation of the Canadian dollar. One of the lone bright spots during the month was the S&P/TSX Preferred Shares Index which rose 5.01%, which is still modestly negative over the year-to-date period.

The Evolve Active Canadian Preferred Share Fund (DIVS) portfolio underperformed the benchmark. This underperformance was largely driven by technical factors that took place in the market. Specifically, there were several redemptions late in the month and the market was well bid to redeploy the cash. Addenda has been managing the portfolio very defensively and will tend to underperform in markets such as this.

We have been adding Fixed Resets with a high likelihood of being called and adding to Perpetual structures. We are overweight in P-2 rated securities, focusing on issuers with strong fundamentals.

## Outlook

Higher expected interest rates and volatile credit environment

Low supply and redemptions are expected to continue. We are expecting just over \$7.9B in redemptions in 2022

More issuance of OTC preferred shares, but minimal

LRCN market needs to remain open

- LRCN ratings need to continue

- Banks will continue to replace their exchange traded preferred shares with OTC preferred shares

Expect less price return and more return from dividend income

- Risk of negative total returns in 2022

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

The indicated rates of return are the historical annual compound total returns net of fees (except for figures of one year or less, which are simple total returns) including changes in per unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The rates of return shown in the table are not intended to reflect future values of the ETF or returns on investment in the ETF. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.

Certain statements contained in this documentation constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information may relate to a future outlook and anticipated distributions, events or results and may include statements regarding future financial performance. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "anticipate", "believe", "intend" or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information. Evolve undertakes no obligation to update publicly or otherwise revise any forward-looking statement whether as a result of new information, future events or other such factors which affect this information, except as required by law.