

Evolve Active Global Fixed Income Fund

EARN seeks to generate positive returns throughout the interest rate and economic cycles, firstly by allocating to different credit asset classes, and also through bottom-up individual security selection.

As at August 31, 2020



ETF TICKER: EARN (Hedged)
MUTUAL FUND FUNDSERV CODE: EVF130 (Class F); EVF131 (Class A)
SUB-ADVISOR: Allianz Global Investors (AllianzGI)



AllianzGI is one of the world's leading active investment managers, managing USD 601 billion in assets, including over USD 200 billion in global fixed income (as at March 31, 2019).

MARKET & PORTFOLIO UPDATE:

August was another positive month for credit, with investment grade spreads narrowing 8bps and high yield 28bps. The move tighter in spreads was supported by the ongoing recovery in global economic activity during the month but somewhat limited by the unusually high amount of corporate issuance at this time of the year. In addition, valuations which have moved closer to long term averages during this time. Fed Chair Jay Powell's speech at the annual Jackson Hole symposium also led to a rise in US Treasury yields, particularly at the long end, which resulted in USD denominated issues underperforming. Coincident with the decline in the value of the US dollar, Emerging Market issuers (particularly Asia) outperformed in August, as did commodity-related credits including oil producers. This was a reprieve for some of the worst performing issuers so far this year.

In this context, the portfolio was positive, with its shorter duration proving beneficial performance as government rates rose. The full duration global corporate index performed well, while high yield had a strong month with lower rated issues outperforming. All the credit segments in the portfolio contributed positively, with only a handful of very mild detractors. Financials led the way as our subordinated holdings recovered after lagging in previous months. Our equity index hedge position was negative as the markets continued to rise.

During the month we took profits on one of our energy Fallen Angels, and exited names elsewhere in real estate, telecoms and utilities. We added one European airline, one non-bank financial, and topped up two other Fallen Angel positions in autos and retail.

OUTLOOK:

In formulating our strategy for the remainder of the year, one of the main questions is what the US Federal Reserve and other Central Banks will do when/if we get a vaccine. While treasury yields will most likely rise a



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little further from these low levels (especially at the long end), in the past we have seen Central Banks reinstating their support measures when markets started to fall and they certainly have the ammunition should they decide to use it. Year to date the Fed has only deployed \$13 billion out of the \$250 billion authorized and bought less than \$100m bonds a week in August. As we have said before however, the support measures only solve for liquidity rather than solvency, so we must continue to pay attention to individual issuer fundamentals.

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