MAY COMMENTARY

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.

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 692 billion in assets, including over USD 242 billion in global fixed income (as at December 31, 2020).

PPERFORMANCE ANALYSIS:

Credit markets were positive for May, with returns driven by income and declining government rates. Spreads were mixed with investment grade tightening 2bps, while high yield was 2bps wider overall – CCCs continued their strong run, tightening 13bps, Bs were 8bps wider, and BBs widened 1bp. By region, Emerging Markets performed well; US issues benefited from declining government rates while the opposite was generally true for European issues. Oil prices were volatile on speculation of Iranian supply returning to the market and OPEC production increases, but rallied into the end of the month as these concerns were allayed.

Our high yield and emerging market names delivered the strongest contributions to performance; the investment grade and securitized allocations were marginally positive.

PORTFOLIO STRATEGY AND ACTIVITY:

During the month we added exposure in residential mortgages, pharmaceuticals, and telecoms. We took profits on some names in energy and a supranational following a strong run of performance. We initiated a small equity hedge position on the view that some of the riskiest areas of the market have reached full value.

The Fed announced that it intends to start winding down the Secondary Market Corporate Credit Facility (SMCCF) portfolio of ETF and corporate bonds from June 7, 2021. They note that sales will be "gradual and orderly" and will consider daily liquidity and trading conditions but expect to complete the sales by year end. We note that relative to the ECB the Fed's purchases have been small both in absolute size and as a

share of the eligible universe. Therefore, we think that the news is unlikely to significantly impact credit spreads and is outweighed by the signal given in March '20 of the Fed's willingness to intervene in credit markets if funding conditions deteriorate. Nevertheless, the key question is whether the decision signals a shift towards further tapering and we are looking ahead to the Jackson Hole economic conference in August for further potential signals.

The portfolio remains well insulated from the prospects of higher yields as the global economy normalizes, while also well positioned to capture the recovery in certain vaccine-sensitive sectors which lagged the rebound in spreads last year. Despite the recent rise in inflation expectations, we ultimately expect it to be more transitory in nature, however we will continue to monitor the situation very closely for any signs of a sustained increase.

The fundamental backdrop for High Yield is improving, with defaults peaking and likely to fall further. We are seeing a positive rating migration driven by autos and communication industries. In terms of technicals, net issuance has been high, but is now declining. With the overall compression in credit spreads recently, careful attention to sector and security selection is warranted. We see some opportunities in Energy post-OPEC clarity and further successes on the vaccination front; single B credits in particular look attractive.

Evolve ETFs
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