MAY COMMENTARY

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.

FIXD (Unhedged)

MUTUAL FUND FUNDSERV CODE: EVF110 (Class F); EVF111 (Class A)

SUB-ADVISOR: Addenda Capital

Active management in Canadian fixed income continues to be an attractive investment opportunity. Addenda Capital is one of Canada's largest multi-asset investment firms, with $34.4 billion in assets under management, including over $20 billion in fixed income (as at October 30, 2020).

MARKET UPDATE:

All asset classes ended May in the green; lead by Canadian equities. The materials and energy sectors were the top performers as commodity prices remain extremely elevated. Interest rates also saw a small reversal after the substantial move higher that we saw earlier in the year. This appears to have run out of steam for the time being.

The S&P TSX returned 3.45% in May while the S&P returned 0.70% (USD). In fixed income, Provincial and Corporate bonds outperformed Federals as the tone in risk remains solid. The FTSE Russell Universe returned 0.63% and the FTSE Russell Short Term Universe came in at 0.09%, however, the Barclays Global Credit Index declined 0.78% as a result of the appreciation in the Canadian dollar. The S&P/TSX Preferred Shares Index continued to climb higher, returning 3.11% and bringing its YTD performance to 14.55%.

During the month of May, the Evolve Active Core Fixed Income Fund positive performance was largely attributable to being overweight in Preferred Shares (via DIVS) as that asset class continues to provide strong absolute returns. This was partially offset by the portfolio's exposure to Global Credit and High Yield bonds, which trailed the broader Canadian fixed income market.

Economic growth continues to be supported by fiscal stimulus and a historically high savings rate. In addition, the unemployment rate should see a decline as pandemic related closures re-open.

Inflation will experience cyclical pressure due to the base effects as measures reflect the rebound from the depts of the pandemic lockdown period. As such, we may see cyclical inflation cause the yield curve to further steepen. Potential risks to our base case include higher personal and corporate taxes due to the significant US fiscal stimulus; inflation being higher than expected due to supportive monetary and fiscal policy which could result in driving longer term interest rates higher.

Going forward, we will continue to actively manage portfolio duration to take advantage of interest rate volatility and maintain our off-benchmark exposures to Preferred Shares and Global credit; although we have started to trim and take profits in the former.

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