

# 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.



DIVS (Unhedged)

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

SUB-ADVISOR: Addenda Capital



Active management in Canadian Preferred Shares continue to be an attractive investment opportunity. Addenda Capital is one of Canada's largest multi-asset investment firms, with over \$35.5 billion in assets under management, including \$24.3 billion in fixed income and over \$1.1 billion in preferred shares.

Source: Addenda Capital, as at March 31, 2021. \*Excludes \$1,146 million in Advisory assets and \$295 million in Overlay assets.

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## MARKET UPDATE:

In Q1, the Canadian preferred share market had a positive return with net positive inflows into the asset class. This resulted in the S&P/TSX Preferred Shares Index returning 8.84%, which outpaced the major equity and fixed income markets during the quarter. The lack of new preferred share supply (only \$450 million) and several redemptions (\$1.77 billion), coupled with the expectations of future redemptions because of Limited Recourse Capital Notes (LRCN), contributed to the positive returns for the market. In addition, rising yields and the expectation of higher inflation has made the preferred share market a sought-after asset class, which further has caused the market to rally. The Index's quarterly sector returns for Perpetuals, Fixed Resets and Floating Rates were 2.9%, 12.5%, and 22.9%, respectively.

Outperformance during the first quarter in the Evolve Active Canadian Preferred Share Fund was attributable to strong security selection and being overweight in low rate Fixed-Rate Resets.

The last month of the second quarter was another good one for most asset classes, apart from short-term bonds. Members of the Federal Reserve moved forward their expectation for higher interest rates, which resulted in short-term bond yields moving higher while the rest of the yield curve moved lower. Equities initially reacted negatively with the hint that the current liquid conditions fueling the markets could be a thing of the past but quickly shrugged that notion off and continued their march to all-time highs by month-end.

The S&P TSX returned 8.54% during Q2, while the S&P 500 returned 6.95% (CAD). Within fixed income, long bonds performed the best during the quarter as yields moved slightly lower in that area of the market, as detailed above. Provincial bonds, which have the longest duration of the Universe therefore outperformed Federal and Corporate bonds. The FTSE Russell Universe returned 1.66%, and the FTSE Corporate Index

came in at 1.28%. Preferred Shares also continued their rally, returning 5.02% and bringing their YTD total to 14.30%. New issuance of preferred shares was zero during the quarter (YTD \$450 million), but there were several redemptions (\$3.9 billion). The price-performance has been a result of financial institutions switching their regulatory capital by issuing Limited Recourse Capital Notes (LRCN) and redeeming preferred shares.

In Q2, the Evolve Active Canadian Preferred Share Fund essentially matched the performance of the benchmark.

Looking forward, we expect interest rates to be range bound with the possibility of higher rates in the short term. We believe the low preferred share supply and higher inflation expectations is supportive for the asset class; however, the evolution of the LRCN and Hybrid fixed income market could potentially become a risk to the preferred share market. Going forward, we expect performance to be primarily driven by dividend income and less from price appreciation like we saw during the last 12 months.

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Your investments should too.

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