SEMI-ANNUAL 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.

NEO FIXD

FIXD (Unhedged)

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

SUB-ADVISOR: Addenda Capital

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.

MARKET UPDATE:

In Q1, market participants continued to look through the pandemic to signs of better days ahead as vaccines roll out and economic data surprises to the upside. Interest rates continued to move higher alongside the equity markets. Specifically, rates climbed over 80 bps during the first quarter and the yield curve steepened significantly in the mid and long-term maturities as further US Government stimulus spurred inflation concerns. Corporate credit and high yield securities outperformed with stable to improving spreads despite strong new supply, and Preferred Shares once again outpaced both equity and bonds.

Outperformance in the Evolve Active Core Fixed Income Fund during the quarter was largely attributable to being overweight in preferred shares (via DIVS) as that asset class continues to provide strong absolute returns.

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%. The Barclays Global Credit Index returned 2.34% ($USD), but only 0.78% ($CAD) as a result of the appreciation of the Canadian dollar. The S&P/TSX Preferred Shares Index also continued its rally, returning 5.02% and bringing its YTD total to 14.30%.

Similar to previous periods, outperformance during the second quarter in the Evolve Active Core Fixed Income Fund 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, which trailed the broader Canadian fixed income market.

Economic growth continues to be supported by fiscal stimulus and a historically high saving 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.

Evolve ETFs
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