

# 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.

TSX

**DIVS**

**ETF TICKER: DIVS (UNHEDGED)**

**MUTUAL FUND FUNDSERV CODES: 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 \$37.2 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 September 30, 2021. \*Excludes \$1,325 million in advisory assets and \$336 million in overlay assets.

## General Industry Update

The month of October saw a dramatic shift in the Canadian fixed income markets as we saw a flattening of the yield curve (short rates rose, long rates fell). This was primarily the result of a hawkish tone from the Bank of Canada which indicated that it was ending its quantitative easing program and signalled that it may raise rates sooner than they previously indicated as there have been concerns that recent inflation may be more persistent than expected. This triggered a sell off in 2-year bonds as many market participants were not expecting this news. Despite this news, corporate credit spreads remained fairly stable and resilient, and ended the month slightly tighter. In the Preferred Shares market, Royal Bank of Canada recently issued an institutional over the counter (OTC) preferred share. This issuance was an evolutionary result of the Limited Recourse Capital Notes (LRCN) that hit the market last year, which was due to the regulators wanting to see more regulatory capital be held by institutional investors. However, there is currently a limit to how much LRCNs a bank can issue. Our understanding of the market's thinking is that once OSFI is comfortable that there is an established OTC preferred share market, it will raise the LRCN limits.

The S&P TSX returned 5.02% in October, while the S&P returned 4.7% in Canadian dollar terms. In Canadian fixed income, Universe bonds declined -1.05% as a result of the sudden rise in short-term interest rates at the end of October. Corporate bonds modestly outperformed Provincial and Federal bonds due to their higher overall yields and stable credit spreads. Similar to equities, the S&P/TSX Preferred Shares Index continued its climb higher, returning 1.81% and bringing its YTD performance to 19.57%.

During the month of October, the Evolve DIVS Preferred Shares portfolio returned 1.54%, but trailed the benchmark by 27 bps. Since Addenda took over management of DIVS on April 1, 2020, the portfolio has returned 41.92% on an annualized basis and significantly outperformed the benchmark return of 38.95%. The primary source of underperformance during the month was our overweight in Perpetuals but this was partially offset by our positive security selection.

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.

Commissions, trailing commissions, management fees and expenses all may be associated with exchange traded mutual funds (ETFs) and mutual funds. Please read the prospectus before investing. ETFs and mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. There are risks involved with investing in ETFs and mutual funds. Please read the prospectus for a complete description of risks relevant to the ETF and mutual fund. Investors may incur customary brokerage commissions in buying or selling ETF and mutual fund units. This communication is intended for informational purposes only and is not, and should not be construed as, investment and/or tax advice to any individual.

The indicated rates of return are the historical annual compound total returns net of fees (except for figures of one year or less, which are simple total returns) including changes in per unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The rates of return shown in the table are not intended to reflect future values of the ETF or returns on investment in the ETF. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.

Certain statements contained in this documentation constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking information may relate to a future outlook and anticipated distributions, events or results and may include statements regarding future financial performance. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "anticipate", "believe", "intend" or other similar expressions concerning matters that are not historical facts. Actual results may vary from such forward-looking information. Evolve undertakes no obligation to update publicly or otherwise revise any forward-looking statement whether as a result of new information, future events or other such factors which affect this information, except as required by law.