

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

ETF TICKER: FIXD (UNHEDGED)

MUTUAL FUND FUNDSERV CODES: EVF110 (CLASS F); EVF111 (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 in 2-year bonds as many market participants were not expecting this news. When communication between the central bank and the market is good, the front-end of the curve should not move much the day of a central bank press release. When it does happen, it is usually because the central bank itself is creating a volatility shock in the market. Despite this news, corporate credit spreads remained fairly stable and resilient, and ended the month slightly tighter.

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. Foreign bonds were relatively flat in local currency, but were negatively impacted by the appreciation in the Canadian dollar, with the Barclays Global Credit Index (\$CAD) declining 2.14%. 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 FIXD CorePlus portfolio declined -0.76% but provided good downside protection versus the benchmark decline of -1.05%. Since Addenda took over management

of FIXD on April 1, 2020, the portfolio has returned 8.02% on an annualized basis and significantly outperformed the benchmark return of 0.70%. Contributing positively to performance during the month of October was relative strength from the underlying Core fixed income component combined with our off benchmark allocation in Preferred Shares (via DIVS) which exceeded the Canadian bond market by a meaningful amount.

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 depths of the pandemic lockdown period. 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.

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.