ANNUAL 2021 COMMENTARY

Evolve US Banks Enhanced Yield Fund

CALL offers investors potential benefits from the positive fundamentals of the largest U.S. banks, with the added value of a covered call strategy applied on up to 33% of the portfolio. Covered call options have the potential to provide extra income and help hedge long stock positions.

TSX **CALL**

ETF TICKERS: CALL (HEDGED); CALL.B (UNHEDGED)

U.S. banks posted strong profits in 2021, albeit declining by 1.2% at the end of the third quarter, as they were slower to shrink their credit loss provisions and grappled with low interest rates, according to the Federal Deposit Insurance Corporation. While 96% of all banks were profitable, two-thirds of them reported annual profit growth.[1]

According to S&P Global Market Intelligence 2022 Banking Industry Outlook Report, the U.S. government's efforts to flood the markets with cash in the aftermath of the COVID-19 pandemic propped up borrowers but also left institutions flooded with excess liquidity.[2]

Heading into fourth quarter earnings season, investors were optimistic about strong results to add fuel to what has been "one of the hottest sectors of the year.[3]"

The performance of US banks was buoyed by strong capital markets and easy monetary conditions. The four largest U.S. consumer banks, JPMorgan Chase & Co, Citigroup, Well Fargo & Co, and Bank of America Corp – all owned by this Fund – reported a combined profit of $28.7 billion for the third quarter, beating analysts' estimates.[4]

Signature Bank and SVB Financial Group, also owned by this Fund, made impressive gains for the third quarter, reporting gains of 11.3% and 10.0%, respectively.[5]

On the back of an increasingly competitive landscape banks have been working to modernize their offerings through mergers and acquisitions. M&A allows institutions to right-size their costly branch networks, while making necessary technology investments that enable more effective competition with fintechs, according to S&P Global Market Intelligence.[6]

According to S&P, heightened digital adoption and cost-cutting efforts prompted net branch closures totaling 3,609 over the 12-month period ending Aug. 31, 2021.[7]

The report states that major fintech players have attracted massive capital and added new financial services product lines and features aimed at further entrenching customers to grow market share and improve profitability. Fintech companies in the U.S. attracted nearly $7.5 billion in venture capital funding in the second quarter of 2021 across 194 transactions, up nearly 70% year over year.[8]

On the M&A front, SVB Financial Group, a holding of this Fund, acquired Boston Private Financial Holdings, Inc. the parent company of Boston Private Bank & Trust Company, a leading provider of integrated wealth management, trust and banking services to individuals, families, businesses and nonprofits.[10]

In September, Golman Sachs announced the acquisition of digital lender GreenSky Inc., which contributed $1.41 billion to its pro forma balance sheet.[11]

In February, M&T Bank Corporation announced its merger with People's United Financial, Inc., in a manner which saw M&T acquire People's United in an all-stock transaction. Both companies are held by this Fund.

Huntington Bancshares Incorporated also merged with TCF Financial Corporation ("TCF") in June to create a Top 25 U.S. bank holding company.[12] Both companies are held by this Fund.

In another transaction by companies held by this Fund, PNC Financial Services Group, Inc. acquired BBVA USA Bancshares, Inc., including its U.S. banking subsidiary BBVA USA. Through this transaction, PNC is now the fifth largest U.S. commercial banking organization with over $560 billion in assets with a coast-to-coast national franchise.[13]

On the regulatory compliance front, Federal Reserve officials questioned several big U.S. banks in September about their exposure to the China Evergrande Group, joining other global regulators in examining the potential fallout from the property developer's debt crisis. Troubles at Evergrande, with more than $300 billion of liabilities, spurred the Fed to seek information to head off any risks to financial stability.[14]

Performance Attribution

For the twelve month period ending December 31, 2021, SVB Financial Group made the biggest contribution to the Fund, followed by Fifth Third Bancorp and Wells Fargo & Co. By weight, the Fund's largest exposure at the end of the year was to Signature Bank/New York NY, followed by Key Corp. and M&T Bank Corp.

Sources:

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