

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 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 \$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

New issuance of preferred shares in the fourth quarter totaled \$800M, and there were several redemptions (\$3.5B). Year to date there was just over \$9.0B in redemptions versus \$2.5B in new issuance and \$755M in ETF inflows. Of note was an inaugural \$750M over-the-counter (OTC) preferred share security issued by the Royal Bank of Canada which does not trade on any exchange like a typical preferred share security. This development was the result of financial institutions desire (via the regulator) to switch their regulatory capital from being held primarily by retail investors to institutional investors. In this environment we saw the S&P/TSX Preferred Share Index continue its positive performance, returning 1.62% during the fourth quarter, and a strong 19.35% for the full year. Fourth quarter performance for the market was largely driven by stable credit markets and higher rates, combined with the continued redemptions discussed earlier. The Index's quarterly sector returns for Perpetuals, Fixed Resets and Floating Rates were -0.1%, 1.8%, and 10.8%, respectively.

The Evolve Active Canadian Preferred Shares Fund (DIVS) modestly trailed the benchmark during the fourth quarter but was still able to outperform the market. Relative performance during the most recent quarter was negatively impacted by security selection and structure allocations. Being overweight Perpetuals and underweight Fixed Resets with low rate reset spreads has contributed to the underperformance. We have been adding Fixed Resets with a high likelihood of being called and adding to Perpetual structures. We are slightly overweight in P-3, focusing on issuers with strong fundamentals.

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. We expect the issuance of the new OTC preferred shares by financial institutions to continue but believe it will be relatively minimal. 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.