

# 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

MUTUAL FUND FUNDSERV CODE: EVF110 (CLASS F); EVF111 (CLASS A)  
SUB-ADVISOR: ADDENDA CAPITAL



Active management in Fixed Income continues 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 \$25.7 billion in fixed income and over \$1.2 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 yield curve flattened aggressively during the quarter as 5-year yields rose 14 basis points while 30-year rates fell 31 bps. This was the result of Central Banks announcing accelerated tapering of QE programs due to strong employment and inflation data and pulled forward potential interest rate increases. Government of Canada one-year yields rose the most during the quarter, closing the year 49 basis points higher than the end of September. Corporate spreads widened in December as equity markets were volatile but closed the year at similar levels to where they began.

The S&P/TSX returned 6.5% during Q4, while the S&P 500 returned 10.7% in Canadian dollar terms. In Canadian fixed income, Universe bonds returned 1.47% during the quarter, but declined -2.5% for the full year period. Corporate bonds modestly trailed Provincial and Federal bonds during the quarter as they did not benefit as much from the flattening of the yield curve. 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 -0.79% during the fourth quarter and by -4.03% for the full year. Similar to equities, the S&P/TSX Preferred Shares Index continued its climb higher, returning 1.62% and bringing its YTD performance to 19.4%.

Over the 1-year period the Evolve Active Core Canadian Fixed Income Fund (FIXD) provided strong downside protection versus the benchmark decline of -2.5%. Contributing to performance during the quarter was the Core Fixed Income segment which benefited from its duration and yield curve positioning as the yield curve flattened. This was partially offset by allocations to Preferred Shares and Global bonds which didn't keep pace with the FTSE Canada Universe

Index; however, the former was the main driver of outperformance over the full year period due to its double digit absolute returns.

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.