

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 continues to be an attractive investment opportunity. Addenda Capital is one of Canada's largest multi-asset investment firms, with over \$38.1 billion in assets under management, including \$26.1 billion in fixed income and over \$1.2 billion in preferred shares.

Source: Addenda Capital, as at December 31, 2021. *Excludes \$1,533 million in Advisory assets and \$354 million in Overlay assets.

General Industry Update

The month of April saw continued volatility across all markets. The key headwinds remain the same: Inflation concerns forcing Central banks to increase interest rates aggressively (negative for stock valuations and economic growth), the war in the Ukraine (supply shock to commodities such as oil, natural gas, and grains), reduced fiscal stimulus and lockdowns in China to contain Covid (a hit to supply chains and commodity demand). Market participants are worried that the headwinds will lead to a significant global slowdown and profits may get squeezed as supply chains struggle to adapt.

April has proved to be a challenging month for equities with the S&P/TSX falling -5%, while the S&P 500 tumbled -6.6% (in Canadian dollar terms). In Canadian fixed income, Universe bonds declined -3.49% as a result of the significant rise in market interest rates. Provincial bonds declined the most due their generally higher duration compared to Federal and Corporates. Foreign bonds were also negative in local currency and were further impacted, but the depreciation in the Canadian dollar helped soften the blow. The Barclays Global Credit Index declined -5.74% (in U.S. dollar terms) and -3.55% (in Canadian dollar terms) during the month of April. Preferred shares were certainly not immune to the macro and geopolitical events, with the S&P/TSX Preferred Shares Index declining sharply by -7.04% as a result of rising interest rates and widening credit spreads.

The Evolve Active Canadian Preferred Share Fund portfolio declined alongside the preferred shares market during the month of April, but was able to provide a bit of downside market protection as it slightly outperformed the benchmark. Being overweight Fixed Resets with low rate reset spreads

contributed positively, as did securities with low duration which acted defensively in the rising interest rate environment.

We have been adding Fixed Resets with a high likelihood of being called and adding to Perpetual structures. We are overweight in P-2 rated securities, focusing on issuers with strong fundamentals.

Outlook

Higher expected interest rates and volatile credit environment.

Low supply and redemptions are expected to continue. We are expecting just over \$7.9B in redemptions in 2022.

More issuance of OTC preferred shares, but minimal

LRCN market needs to remain open

- LRCN ratings need to continue
- Banks will continue to replace their exchange traded preferred shares with OTC preferred shares

Expect less price return and more return from dividend income

- Risk of negative total returns in 2022

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.