

JULY 2022

# 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

Following the trend that started at the end of June, the month of July saw a continued reversal in the Fixed Income markets as interest rates fell sharply. 5- and 10-year bond yields fell the most declining approximately 50 bps, while long bonds declined approximately 40 bps. Short-term rates also declined, but only by approximately 15 bps as they are more anchored to central bank monetary policy. This decline in yields largely reflected the markets concerns about a possible recession, and that the Central Bank will not raise its target overnight rate by as much as originally planned.

Credit securities also benefited from the decline in market interest rates; although spreads only moved marginally tighter. The Preferred Share market however, remained relatively flat despite the activity in broader Fixed Income markets.

The DIVS ETF portfolio's performance was primarily driven by the portfolio's exposure to Limited Recourse Capital Notes (LRCN) and Hybrids, which are technically fixed income securities but with characteristics and behaviour of preferred shares. These securities benefited from the overall rally in market interest rates during the month of July.

We continue to be adding Fixed Resets with a high likelihood of being called and adding to Banks.

We are overweight in P-2, focusing on issuers with strong fundamentals.

## Outlook

- Higher expected interest rates and volatile credit environment
- Low supply and redemptions are expected to continue in 2022
- More issuance of OTC preferred shares, but minimal
- LRCN market needs to remain open
  - LRCN investment grade ratings need to continue
- Expect less price return and more return from dividend income
  - Expect negative returns in 2022 via credit spread widening

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.

**EVOLVE**  
ETFs

The world is evolving.  
Your investments should too.

Evolve ETFs

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