

Evolve European Banks Enhanced Yield ETF

EBNK seeks to replicate, to the extent reasonably possible before fees and expenses, the performance of the Solactive European Bank Top 20 Equal Weight Index Canadian Dollar Hedged, while mitigating downside risk and writing covered call options on up to 33% of the portfolio securities. The level of covered call option writing may vary based on market volatility and other factors.

TSX

EBNK

ETF TICKERS: EBNK (HEDGED); EBNK.B (UNHEDGED); EBNK.U (USD)

At the end of June 2022, European Central Bank (ECB) President Christine Lagarde played down concerns about a recession in the euro zone, saying her team is ready to raise rates at a faster pace, if needed, if inflation continues to rise.(i)

The Eurozone is expected to see a headline inflation rate of 6.8% this year, well above the ECB's target of 2%.

Meanwhile, the region has seen growth levels deteriorate due to a number of factors; including an energy crisis, sanctions on Russia, and food insecurity.

According to the ECB President, "We have markedly revised down our forecasts for growth in the next two years. But we are still expecting positive growth rates due to the domestic buffers against the loss of growth momentum."(ii)

In June, the ECB forecast a GDP rate of 2.8% for the Eurozone this year, but economists are beginning to discuss the prospect of a recession toward year-end off the back of Russia's invasion of Ukraine and the impact that it is having on the global economy.

Investors are also wary of the high levels of debt in Europe, in particular in Italy, and how a return to tighter monetary policy could become a financial constraint for these economies. Nonetheless, the ECB confirmed in early June its intention to hike rates in July and then again after the summer. This would likely bring the ECB's deposit rate back out of negative territory and mark a massive moment for the central bank, which has kept rates below zero since 2014.(iii)

Currently, interest rates on the main refinancing operations, marginal lending facility, and deposit facility remain unchanged at 0.00%, 0.25%, and -0.50%, respectively.(iv)

At the end of the fiscal first quarter for banks, the index of European banks lost close to 30% in the aftermath of Russia's invasion of Ukraine, but the crisis has proven somewhat less disruptive than anticipated for financial markets.(v)

Italy's UniCredit, a holding in the Fund and one of Europe's banks with the most exposure to Russia, surprised the market by saying it would soon start a €1.6 billion share buyback even as Russia-related provisions drove first-quarter profit down by 70%.

In the meantime, France's Société Générale, a holding in the Fund, wrote off roughly €3.1 billion for the sale of its Russian arm Rosbank, but saw its shares rise by about 2.5% at the end of the first quarter, despite announcing additional costs due to the war impacting risks on loans. However, SocGen beat first quarter 2022 earnings expectations as its domestic retail arm prospered and trading improved.

BNP Paribas, a holding in the Fund, reported strong net income as trading boomed, regardless of the fact that it had to book a €159 million impairment on its 60% stake in Ukrainian lender Ukrsibbank.

Arnaud Journois, credit analyst for DBRS Morningstar, commented, "Even if the Ukrainian crisis has had an impact, the rise in the cost of risk has been limited and well below other crises (like COVID-19)".

Performance Attribution

At the end of the six-month period ending June 30, 2022, Caixabank SA was the largest contributor to the Fund's performance, followed by Standard Chartered PLC. The largest holding by weight in the Fund was HSBC Holdings PLC, followed by UBS Group AG.

Sources

- (i) <https://www.cnbc.com/2022/06/28/ecb-lagarde-plays-down-recession-risks-at-sintra-forum.html>
- (ii) <https://www.cnbc.com/2022/06/28/ecb-lagarde-plays-down-recession-risks-at-sintra-forum.html>
- (iii) <https://www.cnbc.com/2022/06/28/ecb-lagarde-plays-down-recession-risks-at-sintra-forum.html>
- (iv) <https://www.cnbc.com/2022/06/06/forex-markets-japanese-yen-dollar-euro.html>
- (v) <https://www.reuters.com/world/europe/european-banks-weather-ukraine-war-q1-earnings-2022-05-05/>

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.