

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

There were no new issues during the fourth quarter, including over-the-counter (OTC) preferred shares, but there was one redemption (\$0.3B).

The negative price performance continued into the fourth quarter as bond yields fell and tax loss harvesting was in full force. Corporate spreads narrowed during the quarter after hitting the widest levels of the year in October. The TSX Preferred Share Index's quarterly sector returns for Perpetuals, Fixed Resets and Floating Rates were -0.72%, -4.20%, and -3.07%, respectively.

Preferred share ETFs were under pressure as yields from new issue Limited Capital Recourse Notes (LRCN's) were more attractive. A couple of Canadian Banks did not redeem their preferred shares last quarter which repriced Canadian Bank preferred shares lower.

The Evolve Active Canadian Preferred Share Fund portfolio outperformed during the fourth quarter primarily due to security selection, fixed income securities and cash. Being defensive and 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. The OTC preferred shares outperformed the broader Index. We have been adding Fixed Resets with a high likelihood of being called and adding to Banks. We are overweight in P-2 rated securities and focusing on issuers with strong fundamentals.

Outlook

- Higher expected interest rates and volatile credit environment
- Low supply and redemptions are expected to continue in 2023
- 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 2023 as a result of credit spread widening and liquidity
 - Pockets of value are emerging with higher dividends

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.