

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

ETF TICKER: FIXD (UNHEDGED)

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 \$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.

Market and Portfolio Review

The Bank of Canada slowed its pace of monetary policy tightening during the fourth quarter, raising the overnight target rate by 100 basis points (bps) to 4.25%. Similarly, the Federal Reserve tightened by a total of 125 bps, to finish the year at a target range of 4.25 – 4.50%. Both Central Banks suggested that they have not finishing tightening for this cycle.

Rates rose across the curve even as the Bank of Canada signaled a slower pace of tightening and inflation data continued moving lower. Short-term rates rose more than longer term.

Domestic and global corporate spreads narrowed during the quarter after hitting the widest levels of the year in October, supported by a positive overall tone for risk markets.

Equity markets rebounded strongly after hitting the lowest levels of the year in October, on expectations that Central banks are nearing the end of monetary policy tightening.

Portfolio Positioning

Canadian Core Bonds

Maintain slight overweight in corporate securities with an emphasis on strong credits and shorter maturities. Look to add duration risk opportunistically as rates increase.

High Yield Bonds

Maintain a modest allocation due to a lower correlation to rising rates and to capture additional yield.

Global Bonds

Maintain tactical allocation and look to add as credit spreads widen.

Preferred Shares

Maintain a modest allocation for yield enhancement and look to add opportunistically.

Economic Outlook

Growth

- Economic growth slows in 2023 but remains positive as domestic demand is supported by strong labour market dynamics and excess household savings.
- Unemployment is slow to adjust due to tight labour markets.
- Recession risk increases as the year progresses due to the maintenance of restrictive monetary policy.

Inflation

- Inflation pressure should continue to moderate throughout 2023 but will remain above central bank targets in terms of both level and scope. Service inflation is persistent, while goods inflation declines.
- Dislocations in the labour markets with more job openings than available workers continue to put pressure on wages.

Policy

- Central Banks have begun to “step down” the pace of monetary policy tightening at the end of 2022. Some further tightening is expected in 2023 and they will reach the terminal level for this cycle and pause to assess the impact.
- Against the backdrop of slowing economic growth, but higher than target inflation, central banks will focus on price stability and will not pivot to stimulate growth in the near term.
- Expect continued steady planned reductions in balance sheet holdings which will reduce liquidity and support for risk assets.

Risks

- Uncertainty related to slowing economic momentum and determined Central Banks will contribute to market volatility.
- Despite a declining trend, consumer price inflation proves more persistent causing central banks to maintain tighter policy conditions for longer.
- Higher interest rates and higher inflation cause more significant demand destruction and a deeper recession.

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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.

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