

# 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 \$32.1 billion in assets under management\*, including \$20.9 billion in fixed income and over \$984 million in preferred shares.

Source: Addenda Capital, as at September 30, 2022. \*Includes \$1.5 billion in Advisory assets and \$298 million in Overlay assets.

## General Industry Update

After a strong performance of major asset classes in January, guided by narratives such as a peaking of global inflationary pressures and a downshift in the pace of central bank hikes, market performance later took a downturn in February as it became increasingly clear that inflation was not in the rear-view mirror. In the U.S., core inflation (which excludes volatile components such as energy and food) rose 5.6% y/y which was above expectations. The inflationary outturn in Canada for January was more favorable as prices rose 4.9% on a year-over-year basis excluding food and energy and 5.4% excluding mortgage interest cost. In both cases, year-over-year price growth in Canada slowed compared to December.

Given stronger than expected economic data, market expectations for rate cuts were pushed back as the market repriced higher for longer policy rates in major economies.

This revision in market expectations surrounding central bank policy resulted in equities and bonds selling off during the month. The FTSE Canada Universe Bond Index returned -1.99% during the month of February with all sectors and maturities posting negative returns. Federal bonds returned -1.96%, Provincials returned -2.39%, and corporate bonds returned -1.50%. Similarly, the FTSE Short Index returned -0.76% and the FTSE Long Index returned -3.22%, the latter of which was hurt by its higher sensitivity to market interest rates. Outside of Canada, the Bloomberg Global Credit Index returned -3.14% in USD, but only -1.17% in Canadian dollar terms. Canadian Preferred Shares were not immune to the broad-based sell-off and closed the month down -0.96%, primarily as a result of the rise in yields and widening of credit spreads.

In this environment, the Evolve Active Canadian Preferred Shares Fund (DIVS) declined 1.18% (before fees) and modestly trailed the benchmark of 18 bps. The portfolio's sector positioning detracted value, but this was partially offset by exposure to LRCN fixed income securities (which behave similarly to Prefs) as well as some excess cash.

We continue to have a bias to Fixed Resets (with high back-end spreads) with a high likelihood of being called, as well as 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
- Two Canadian Banks extending exchange traded preferred shares
- 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 expected 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.