

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 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.

Market and Portfolio Review

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, as measured by the S&P/TSX Preferred Shares Index, closed the month down -0.96%.

In this environment, the Evolve Active Core Fixed Income Fund (FIXD) returned -1.75% relative to benchmark (before fees) return of -1.99%. Despite the weakness in the bond and equities market, the portfolio outperformed benchmark as a result of out-of-benchmark allocations to Canadian Preferred Shares and Global Credit, with the latter benefiting from the depreciation of the Canadian dollar.

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.

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.

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